

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

CASS COUNTY
WALKER, MINNESOTA

FOR THE YEAR ENDED DECEMBER 31, 2012

Description of the Office of the State Auditor

The mission of the Office of the State Auditor is to oversee local government finances for Minnesota taxpayers by helping to ensure financial integrity and accountability in local governmental financial activities.

Through financial, compliance, and special audits, the State Auditor oversees and ensures that local government funds are used for the purposes intended by law and that local governments hold themselves to the highest standards of financial accountability.

The State Auditor performs approximately 160 financial and compliance audits per year and has oversight responsibilities for over 3,300 local units of government throughout the state. The office currently maintains five divisions:

Audit Practice - conducts financial and legal compliance audits of local governments;

Government Information - collects and analyzes financial information for cities, towns, counties, and special districts;

Legal/Special Investigations - provides legal analysis and counsel to the Office and responds to outside inquiries about Minnesota local government law; as well as investigates allegations of misfeasance, malfeasance, and nonfeasance in local government;

Pension - monitors investment, financial, and actuarial reporting for approximately 730 public pension funds; and

Tax Increment Financing - promotes compliance and accountability in local governments' use of tax increment financing through financial and compliance audits.

The State Auditor serves on the State Executive Council, State Board of Investment, Land Exchange Board, Public Employees Retirement Association Board, Minnesota Housing Finance Agency, and the Rural Finance Authority Board.

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**CASS COUNTY
WALKER, MINNESOTA**

For the Year Ended December 31, 2012



**Audit Practice Division
Office of the State Auditor
State of Minnesota**

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**CASS COUNTY
WALKER, MINNESOTA**

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WALKER, MINNESOTA**

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**CASS COUNTY
WALKER, MINNESOTA**

**ORGANIZATION
AS OF DECEMBER 31, 2012**

		<u>Term Expires</u>
Elected		
Commissioners		
District I	Neal Gaalswyk	January 2015
District II	Robert Kangas	January 2017
District III	Jeff Peterson	January 2017
District IV	James Dowson	January 2015
District V	Dick Downham	January 2017
Attorney	Christopher Strandlie	January 2015
Recorder	Kathryn Norby	January 2015
Sheriff	Tom Burch	January 2015
Appointed		
Administrator	Robert Yochum	November 2013
Assessor	Mark Peterson	December 2016
Auditor/Treasurer	Sharon K. Anderson	Indefinite
Central Services Director	Tim Richardson	Indefinite
Chief Financial Officer	Larry Wolfe	Indefinite
Environmental Services Director	John Ringle	Indefinite
Health, Human and Veterans Services	Reno Wells	Indefinite
Highway Engineer	Dave Enblom	May 2013
Land Commissioner	Joshua Stevenson	Indefinite
Medical Examiner	Dr. Michael B. McGee	January 2013
Probation Director	James Schneider	Indefinite

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REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA

OFFICE OF THE STATE AUDITOR

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INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners
Cass County

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Cass County, Minnesota, as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Cass County Housing and Redevelopment Authority (HRA) and the Pine River Area Sanitary District (District), the discretely presented component units. Those financial statements were audited by another auditor whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the component units, is based solely upon the reports of the other auditor. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the County's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, based on our audit and the reports of the other auditor, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Cass County as of December 31, 2012, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and Required Supplementary Information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Cass County's basic financial statements. The supplementary information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 26, 2013, on our consideration of Cass County’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Cass County’s internal control over financial reporting and compliance.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards (SEFA) is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the SEFA is fairly stated in all material respects in relation to the basic financial statements as a whole.

/s/Rebecca Otto

/s/Greg Hierlinger

REBECCA OTTO
STATE AUDITOR

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

September 26, 2013

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MANAGEMENT'S DISCUSSION AND ANALYSIS

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**CASS COUNTY
WALKER, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2012
(Unaudited)**

As management of Cass County, Minnesota, we offer the readers of the Cass County financial statements this narrative overview and analysis of its financial activities for the fiscal year ended December 31, 2012. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in the basic financial statements that follow this section. All amounts, unless otherwise indicated, are expressed in whole dollars.

FINANCIAL HIGHLIGHTS

The assets of Cass County exceeded its liabilities on December 31, 2012, by \$173,409,499 (net position). Of this amount, \$41,734,254 (unrestricted net position) may be used to meet the government's ongoing obligations to citizens and creditors.

As of the close of 2012, Cass County's governmental funds reported combined ending fund balances of \$61,876,208, an increase of \$1,831,786 in comparison with 2011. Of this balance amount, \$9,791,804 was unassigned by Cass County, and thus available for spending at the government's discretion.

Cass County had no debt during 2012.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to Cass County's basic financial statements. Cass County's financial statements are comprised of three components: (1) government-wide financial statements, (2) fund level financial statements, and (3) notes to the financial statements. This report also contains other supplementary information.

Government-wide financial statements are designed to provide readers with a broad overview of Cass County's finances in a manner similar to a private-sector business.

The statement of net position presents information on all of Cass County's assets and liabilities, with the difference being reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of Cass County is improving or deteriorating.

The statement of activities presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows only in future fiscal periods (for example, uncollected taxes and earned but unused vacation leave).

Cass County's government-wide financial statements distinguish County operations by function. The governmental activities of Cass County include general government, public safety, highways and streets, sanitation, human services, health, culture and recreation, conservation of natural resources, and economic development.

The government-wide statements include not only the financial data for Cass County itself (known as the primary government), but also the legally separate Cass County Housing and Redevelopment Authority and the Pine River Area Sanitary District component units, for which Cass County is financially accountable. Further financial information for these component units is audited and reported separately from the financial information provided herein for the primary government itself.

The government-wide statements can be found on Exhibits 1 and 2 of this report.

Fund level statements. A fund is a grouping of related accounts used to maintain control over resources that have been segregated for specific activities or objectives. Cass County, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with financial-related legal requirements. All of the funds of Cass County can be divided into two categories: governmental funds and fiduciary funds.

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financial requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financial decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balance provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Cass County adopts an annual appropriated budget for its General Fund; Road and Bridge Special Revenue Fund; Health, Human, and Veterans Services Special Revenue Fund; and Forfeited Tax Sale Special Revenue Fund. A budgetary comparison statement has been provided for these funds to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on Exhibits 3 through 6 of this report.

Fiduciary funds are used to account for resources held for the benefit of parties outside of Cass County. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support Cass County's own programs or activities. Cass County's fiduciary funds include Taxes and Penalties, State of Minnesota, School Districts, Towns and Cities, Minnesota Counties Information Systems, and Mississippi Headwaters Board.

Notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found following the exhibits.

Other information is provided as supplementary information regarding Cass County's intergovernmental revenues.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Over time, net position serves as a useful indicator of the County's financial position. Cass County's assets exceeded liabilities by \$173,409,499 at the close of 2012. The largest portion of Cass County's net position (68 percent) reflects the County's investment in capital assets (land, buildings, equipment, and infrastructure such as roads and bridges). However, it should be noted that these assets are not available for future spending or for liquidating any remaining debt.

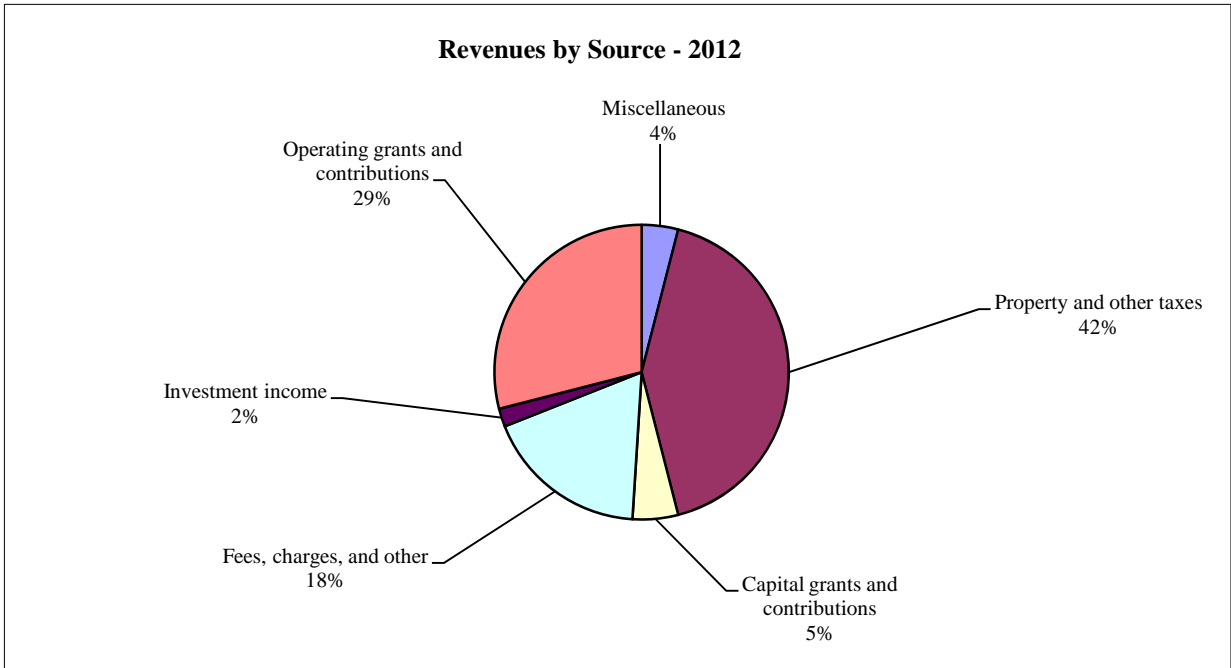
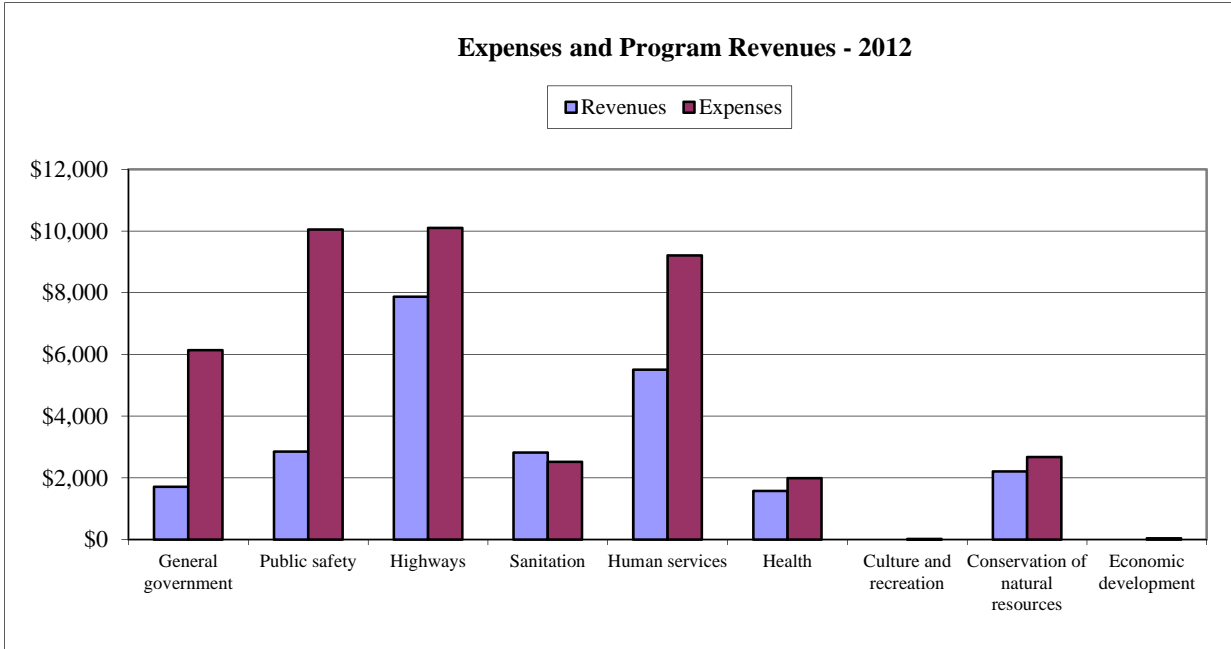
Governmental Activities	Net Position (in Thousands)	
	2012	2011
Assets		
Current and other assets	\$ 70,903	\$ 69,278
Capital assets	118,615	114,249
Total Assets	\$ 189,518	\$ 183,527
Liabilities		
Long-term liabilities	\$ 11,600	\$ 10,148
Other liabilities	4,509	4,790
Total Liabilities	\$ 16,109	\$ 14,938

Governmental Activities	2012	2011
Net Position		
Net investment in capital assets	\$ 118,615	\$ 114,249
Restricted	13,060	12,681
Unrestricted	41,734	41,659
 Total Net Position	 \$ 173,409	 \$ 168,589

The unrestricted net position amount of \$41,734,254 as of December 31, 2012, may be used to meet the County's ongoing obligations to citizens and creditors.

**Changes in Net Position
(in Thousands)**

Governmental Activities	2012	2011
Revenues		
Program revenues		
Charges for services	\$ 8,515	\$ 8,365
Operating grants and contributions	13,606	15,244
Capital grants and contributions	2,407	2,278
General revenues		
Property taxes	20,107	19,217
Other	2,911	4,505
 Total Revenues	 \$ 47,546	 \$ 49,609
Expenses		
General government	\$ 6,135	\$ 2,837
Public safety	10,046	13,247
Highways and streets	10,098	8,216
Sanitation	2,519	2,137
Human services	9,208	9,865
Health	1,993	2,153
Culture and recreation	17	17
Conservation of natural resources	2,672	2,527
Economic development	38	38
 Total Expenses	 \$ 42,726	 \$ 41,037
 Increase in Net Position	 \$ 4,820	 \$ 8,572
 Net Position - January 1	 168,589	 160,017
 Net Position - December 31	 \$ 173,409	 \$ 168,589



FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

As noted earlier, Cass County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the County's governmental funds is to provide information on short-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the County's financing requirements.

Cass County's governmental funds reported a combined fund balance of \$61,876,208 in 2012, compared with \$60,044,422 in 2011, an increase of \$1,831,786. Fund balances that are classified as restricted are either nonspendable or restricted and have specific (usually external) constraints placed on their use. Fund balances that are classified as unrestricted are either committed, assigned, or unassigned fund balances. Committed and assigned fund balances are fund balances for which the County has identified a specific purpose. Unassigned fund balances do not have a specific use identified, but generally support cash flows of the County.

Governmental funds reported restricted fund balance for 2012 of \$12,584,087, or 20.3 percent of total fund balance. Restricted fund balance was \$5,652,229 nonspendable and \$6,931,858 restricted. Unrestricted fund balance was \$49,292,121, or 79.7 percent, of total fund balance. Unrestricted fund balance was \$11,200,000 committed, \$28,300,317 assigned, and \$9,791,804 unassigned. Committed fund balances are approved by the County Board. For example, the Board has decided, by resolution, to set aside monies to fund the self-insurance program for employee and retiree health benefits. Assigned fund balances are amounts that are to be used for specific purposes, but are neither restricted or committed. Funds set aside for uninsured losses are an example of assigned fund balance. Unassigned fund balance is fund balance that has not been reported in any other classification and is only used in the General Fund unless there are deficit fund balances in other funds.

The General Fund is the chief operating fund of the County and is used to account for all financial resources except those required to be accounted for in another fund. The unrestricted fund balance of the General Fund was \$19,410,309 in 2012, compared to \$18,023,607 in 2011. This increase was due to revenues and transfers exceeding expenditures for 2012. Unrestricted fund balance at the end of the year represented 102.75 percent of the General Fund's operating revenues and 107.06 percent of operating expenditures. The County's unassigned fund balance represents 51.8 percent of the General Fund's operating revenues and 54.0 percent of operating expenditures. The Office of the State Auditor recommends that counties maintain unrestricted fund balance in their General Fund of approximately 35.0 to 50.0 percent of operating revenues, or no less than five months of operating expenditures (41.7 percent).

The unrestricted fund balance of the Road and Bridge Fund was \$2,290,469 in 2012, compared to \$4,277,143 in 2011. This reduction was due to additional construction projects undertaken during the year. Unrestricted fund balance at the end of the year represented 19.2 percent of the Road and Bridge Fund's operating revenues and 16.5 percent of operating expenditures.

The unrestricted-assigned fund balance of the Health, Human, and Veteran Service Fund (HHVS) was \$12,380,307 in 2012, compared to \$10,064,444 in 2011. This increase was due to lower expenditures than budgeted in HHVS programs and services. Unrestricted-assigned fund balance at the end of the year represented 92.8 percent of the HHVS Fund's operating revenues and 112.3 percent of operating expenditures. In 2011, the County Board committed \$3,000,000 of HHVS fund balance for out-of-home placement costs.

Total assigned fund balance in the Capital Projects Fund was \$11,820,309 in 2012, compared to \$11,439,264 in 2011. This fund balance is to be held for a future capital project such as a law enforcement and judicial center.

Pursuant to Minnesota statute, the Forfeited Tax Sale Fund distributed \$1,396,809 in net proceeds to County funds, schools, cities, and towns in Cass County. The distribution was \$375,000 more than the 2011 distribution primarily because of an increase in land sales for 2012.

General Fund Budgetary Highlights

Budgets can be amended during the year by the County Board. Supplemental appropriations or budget adjustments are reviewed by the Chief Financial Officer and submitted to the County Board for its review and approval.

Actual revenues for 2012 were \$976,214 more than the final budget. Intergovernmental revenues represented \$694,560 of the budget variance. Actual expenditures were less than budgeted expenditures by \$701,640 in 2012.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

Cass County's capital assets for its governmental activities at December 31, 2012, totaled \$118,614,963 (net of accumulated depreciation). This investment in capital assets includes land, buildings, equipment, and infrastructure. The County's net capital assets increased \$4,365,916, or 3.8 percent, from the previous year. The major capital asset event was \$7.1 million gross investment in construction in progress for 2012.

Governmental Capital Assets (Net of Depreciation)

	2012	2011
Land	\$ 4,973,873	\$ 4,966,853
Infrastructure	87,867,940	88,729,320
Buildings	12,872,466	12,919,220
Machinery, furniture, and equipment	1,430,224	1,612,219
Construction in progress	11,470,460	6,021,435
Total	<u>\$ 118,614,963</u>	<u>\$ 114,249,047</u>

(Unaudited)

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Additional information on the County's capital assets can be found in the notes to the financial statements.

Long-Term Debt

At the end of the current fiscal year, the County had no outstanding debt that was backed by the full faith and credit of the government.

Minnesota statutes limit the amount of debt a County may levy to three percent of its total market value. At the end of 2012, Cass County's legal debt limit was \$191,000,000.

Additional information on the County's long-term liabilities can be found in the notes to the financial statements of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

Cass County's tax base at the end of 2012 was 3.2 percent less than 2011. This was the second decline since 2002. Although the tax base declined, Cass County continues to have one of the lowest tax rates among neighboring counties. Demand for lakeshore and recreational land has continued, which aids in the economic growth of the County.

By the end of 2012, Cass County approved its balanced 2013 revenue and expenditure budgets.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of Cass County's finances. Questions concerning any of the information provided in this report, or requests for additional financial information, should be addressed to the Chief Financial Officer of Cass County, P. O. Box 3000, Walker, Minnesota 56484.

BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

**CASS COUNTY
WALKER, MINNESOTA**

EXHIBIT 1

**STATEMENT OF NET POSITION
DECEMBER 31, 2012**

	Primary Government Governmental Activities	Discretely Presented Component Units
<u>Assets</u>		
Cash and pooled investments	\$ 58,992,639	\$ 101,719
Petty cash and change funds	2,591	-
Investments	4,144,790	-
Taxes receivable		
Prior - net	985,825	-
Special assessments receivable		
Prior - net	173,870	21,443
Accounts receivable - net	2,004,731	24,663
Accrued interest receivable	204,068	11
Long-term receivable from South Country Health Alliance - current	214,408	-
Due from other governments	2,223,850	-
Prepaid items	1,081,400	8,232
Inventories	446,129	-
Note receivable	-	123,535
Long-term receivable from South Country Health Alliance	428,818	-
Restricted assets		
Cash and pooled investments	-	264,434
Capital assets		
Non-depreciable	16,444,333	35,753
Depreciable - net of accumulated depreciation	102,170,630	2,194,022
	\$ 189,518,082	\$ 2,773,812
Total Assets		
<u>Liabilities</u>		
Accounts payable	\$ 1,284,032	\$ 9,775
Salaries payable	1,004,950	12,590
Compensated absences payable - current	-	16,325
Contracts payable	363,435	-
Retainage payable	61,321	-
Due to other governments	671,840	-
Advance from other governments	880,208	-
Accrued interest payable	-	2,633
Unearned revenue	242,785	-
Customer deposits payable	-	4,224
Other current liabilities	-	744
Long-term liabilities		
Due within one year	222,875	190,208
Due in more than one year	11,377,137	1,148,026
	\$ 16,108,583	\$ 1,384,525
Total Liabilities		

The notes to the financial statements are an integral part of this statement.

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**CASS COUNTY
WALKER, MINNESOTA**

***EXHIBIT 1
(Continued)***

**STATEMENT OF NET POSITION
DECEMBER 31, 2012**

	Primary Government Governmental Activities	Discretely Presented Component Units
<u>Net Position</u>		
Net investment in capital assets	\$ 118,614,963	\$ 890,939
Restricted for		
General government	507,485	-
Public safety	1,304,245	-
Highways and streets	904,285	-
Conservation of natural resources	9,997,447	64,824
Other purposes	346,820	-
Unrestricted	41,734,254	433,524
Total Net Position	\$ 173,409,499	\$ 1,389,287

**CASS COUNTY
WALKER, MINNESOTA**

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2012**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Fees, Charges, Fines, and Other</u>
Primary government		
Governmental activities		
General government	\$ 6,135,221	\$ 1,110,030
Public safety	10,046,224	615,555
Highways and streets	10,097,879	876,286
Sanitation	2,519,531	2,748,196
Human services	9,207,542	557,710
Health	1,993,064	737,102
Culture and recreation	16,812	-
Conservation of natural resources	2,671,916	1,869,706
Economic development	37,500	-
Total Primary Government	\$ 42,725,689	\$ 8,514,585
Component unit		
Housing and Redevelopment Authority	\$ 560,605	\$ 60,834
Pine River Area Sanitary District	547,336	492,258
Total Component Units	\$ 1,107,941	\$ 553,092
General Revenues		
Property taxes		
Mortgage registry and deed tax		
Other taxes		
Payments in lieu of tax		
Grants and contributions not restricted to specific programs		
Unrestricted investment earnings		
Miscellaneous		
Total general revenues		
Change in net position		
Net Position - Beginning		
Net Position - Ending		

EXHIBIT 2

<u>Program Revenues</u>		<u>Net (Expense) Revenue and Changes in Net Position</u>	
<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Primary Government Governmental Activities</u>	<u>Discretely Presented Component Unit</u>
\$ 595,702	\$ -	\$ (4,429,489)	
2,233,619	-	(7,197,050)	
4,590,801	2,407,060	(2,223,732)	
70,000	-	298,665	
4,948,460	-	(3,701,372)	
832,373	-	(423,589)	
-	-	(16,812)	
334,651	-	(467,559)	
-	-	(37,500)	
<u>\$ 13,605,606</u>	<u>\$ 2,407,060</u>	<u>\$ (18,198,438)</u>	
\$ -	\$ 403,591		\$ (96,180)
-	94,190		39,112
<u>\$ -</u>	<u>\$ 497,781</u>		<u>\$ (57,068)</u>
		\$ 20,106,632	\$ -
		43,895	-
		29,924	-
		874,277	-
		624,123	-
		890,244	1,607
		449,238	-
		<u>\$ 23,018,333</u>	<u>\$ 1,607</u>
		\$ 4,819,895	\$ (55,461)
		<u>168,589,604</u>	<u>1,446,898</u>
		<u>\$ 173,409,499</u>	<u>\$ 1,391,437</u>

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FUND FINANCIAL STATEMENTS

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GOVERNMENTAL FUNDS

**CASS COUNTY
WALKER, MINNESOTA**

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2012**

	<u>General</u>	<u>Road and Bridge</u>	<u>Health, Human, and Veterans Services</u>
<u>Assets</u>			
Cash and pooled investments	\$ 20,920,082	\$ 3,788,905	\$ 15,057,516
Petty cash and change funds	2,251	100	140
Undistributed cash in agency funds	234,175	59,655	86,882
Investments	-	-	-
Taxes receivable			
Prior	480,147	198,055	295,711
Special assessments			
Prior	173,870	-	-
Accounts receivable	230,913	-	113,755
Long-term receivable from			
South Country Health Alliance - current	-	-	214,408
Accrued interest receivable	186,026	-	-
Due from other funds	336,937	68,936	-
Due from other governments	127,620	1,049,107	1,047,123
Prepaid expense	1,081,400	-	-
Inventories	-	446,129	-
	<hr/>	<hr/>	<hr/>
Total current assets	\$ 23,773,421	\$ 5,610,887	\$ 16,815,535
Long-term receivable from			
South Country Health Alliance	-	-	428,818
	<hr/>	<hr/>	<hr/>
Total Assets	\$ 23,773,421	\$ 5,610,887	\$ 17,244,353
<u>Liabilities and Fund Balances</u>			
Liabilities			
Accounts payable	\$ 562,663	\$ 122,027	\$ 526,665
Salaries payable	553,596	139,456	284,118
Compensated absences - current	123,236	31,447	63,614
Contracts payable	-	363,435	-
Retainage payable	-	61,321	-
Due to other funds	2,405	-	1,377
Due to other governments	80,562	13,799	59,263
Deferred revenue - unavailable	679,949	1,038,227	922,859
Deferred revenue - unearned	12,406	224,369	6,010
Advances from other governments	-	880,208	-
	<hr/>	<hr/>	<hr/>
Total Liabilities	\$ 2,014,817	\$ 2,874,289	\$ 1,863,906

EXHIBIT 3

<u>Forfeited Tax Sale</u>	<u>Environmental Trust</u>	<u>Capital Projects</u>	<u>Nonmajor Funds</u>	<u>Total Governmental Funds</u>
\$ 5,875,312	\$ 725,763	\$ 11,819,816	\$ 422,857	\$ 58,610,251
100	-	-	-	2,591
-	-	259	1,417	382,388
-	4,144,790	-	-	4,144,790
-	-	5,096	6,816	985,825
-	-	-	-	173,870
1,660,063	-	-	-	2,004,731
-	-	-	-	214,408
-	18,042	-	-	204,068
-	82,000	-	996	488,869
-	-	-	-	2,223,850
-	-	-	-	1,081,400
-	-	-	-	446,129
\$ 7,535,475	\$ 4,970,595	\$ 11,825,171	\$ 432,086	\$ 70,963,170
-	-	-	-	428,818
\$ 7,535,475	\$ 4,970,595	\$ 11,825,171	\$ 432,086	\$ 71,391,988
\$ 72,677	\$ -	\$ -	\$ -	\$ 1,284,032
27,780	-	-	-	1,004,950
4,578	-	-	-	222,875
-	-	-	-	363,435
-	-	-	-	61,321
418,514	31,080	-	35,493	488,869
501,855	-	-	-	655,479
1,660,063	-	4,862	5,866	4,311,826
-	-	-	-	242,785
-	-	-	-	880,208
\$ 2,685,467	\$ 31,080	\$ 4,862	\$ 41,359	\$ 9,515,780

**CASS COUNTY
WALKER, MINNESOTA**

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2012**

	<u>General</u>	<u>Road and Bridge</u>	<u>Health, Human, and Veterans Services</u>
<u>Liabilities and Fund Balances</u>			
(Continued)			
Fund Balances			
Nonspendable			
Inventories	\$ -	\$ 446,129	\$ -
Prepaid items	1,081,400	-	-
Environmental trust	-	-	-
Restricted for			
Forestry development	-	-	-
Law library	46,253	-	-
Recorder's technology equipment	407,184	-	-
Recorder's compliance fund	47,729	-	-
E-911	212,065	-	-
Missing heirs	23,365	-	-
Federal projects	323,455	-	-
Attorney's forfeiture	6,319	-	-
Wetland activity	189,745	-	-
Sheriff permit to carry fees	10,780	-	-
Birth certificates	-	-	140
Environmental trust	-	-	-
Committed to			
Road and bridge projects	-	-	-
Out-of-home placements	-	-	3,000,000
ARMER radio project	750,000	-	-
Compensated absences	2,700,000	-	-
Health insurance	4,400,000	-	-
Assigned to			
Capital projects	-	-	-
Road and bridge	-	2,246,739	-
Unorganized towns	-	-	-
Pit reclamation	-	25,935	-
Petrovend	-	17,795	-
Human services	-	-	12,350,231
Health insurance	46,324	-	-
Drug and alcohol addiction fees	-	-	6,683
Food support enhanced funds	-	-	23,393
Uninsured claims	1,300,000	-	-
Longville ambulance	263,235	-	-
Environmental grants	112,451	-	-
Shingobee Island	46,495	-	-
Unassigned	9,791,804	-	-
Total Fund Balances	\$ 21,758,604	\$ 2,736,598	\$ 15,380,447
Total Liabilities and Fund Balances	\$ 23,773,421	\$ 5,610,887	\$ 17,244,353

EXHIBIT 3
(Continued)

<u>Forfeited Tax Sale</u>	<u>Environmental Trust</u>	<u>Capital Projects</u>	<u>Nonmajor Funds</u>	<u>Total Governmental Funds</u>
\$ -	\$ -	\$ -	\$ -	\$ 446,129
-	-	-	-	1,081,400
-	4,124,700	-	-	4,124,700
4,850,008	-	-	-	4,850,008
-	-	-	-	46,253
-	-	-	-	407,184
-	-	-	-	47,729
-	-	-	-	212,065
-	-	-	-	23,365
-	-	-	-	323,455
-	-	-	-	6,319
-	-	-	-	189,745
-	-	-	-	10,780
-	-	-	-	140
-	814,815	-	-	814,815
-	-	-	350,000	350,000
-	-	-	-	3,000,000
-	-	-	-	750,000
-	-	-	-	2,700,000
-	-	-	-	4,400,000
-	-	11,820,309	-	11,820,309
-	-	-	-	2,246,739
-	-	-	40,727	40,727
-	-	-	-	25,935
-	-	-	-	17,795
-	-	-	-	12,350,231
-	-	-	-	46,324
-	-	-	-	6,683
-	-	-	-	23,393
-	-	-	-	1,300,000
-	-	-	-	263,235
-	-	-	-	112,451
-	-	-	-	46,495
-	-	-	-	9,791,804
<u>\$ 4,850,008</u>	<u>\$ 4,939,515</u>	<u>\$ 11,820,309</u>	<u>\$ 390,727</u>	<u>\$ 61,876,208</u>
<u>\$ 7,535,475</u>	<u>\$ 4,970,595</u>	<u>\$ 11,825,171</u>	<u>\$ 432,086</u>	<u>\$ 71,391,988</u>

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**CASS COUNTY
WALKER, MINNESOTA**

EXHIBIT 4

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO
THE GOVERNMENT-WIDE STATEMENT OF NET POSITION--GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2012**

Fund balances - total governmental funds (Exhibit 3)		\$ 61,876,208
<p>Amounts reported for governmental activities in the statement of net position are different because:</p>		
<p>Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.</p>		118,614,963
<p>Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds. This adjustment is deferred revenue - unavailable, plus amounts included in deferred revenue that will be paid to other governments when collected.</p>		
Deferred revenue - unavailable	\$ 4,311,826	
Due to other governments	(16,361)	4,295,465
<p>Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds.</p>		
Compensated absences	\$ (2,597,448)	
Net other postemployment benefits payable	(8,779,689)	(11,377,137)
Net Position of Governmental Activities (Exhibit 1)		<u>\$ 173,409,499</u>

**CASS COUNTY
WALKER, MINNESOTA**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>General</u>	<u>Road and Bridge</u>	<u>Health, Human, and Veterans Services</u>
Revenues			
Taxes	\$ 10,110,621	\$ 4,000,023	\$ 5,801,964
Special assessments	1,753,671	-	-
Licenses and permits	106,655	-	7,180
Intergovernmental	3,064,997	7,015,830	5,943,809
Charges for services	2,295,117	701,729	834,246
Fines and forfeits	11,600	-	-
Gifts and contributions	7,150	-	1,750
Investment earnings	772,699	-	28,292
Miscellaneous	766,896	174,557	716,452
Total Revenues	\$ 18,889,406	\$ 11,892,139	\$ 13,333,693
Expenditures			
Current			
General government	\$ 6,052,006	\$ -	\$ 156,727
Public safety	9,482,501	-	-
Highways and streets	-	13,878,813	-
Sanitation	2,120,311	-	-
Human services	-	-	9,054,414
Health	-	-	1,806,689
Culture and recreation	15,000	-	-
Conservation of natural resources	422,797	-	-
Economic development	37,500	-	-
Capital outlay	-	-	-
Total Expenditures	\$ 18,130,115	\$ 13,878,813	\$ 11,017,830
Excess of Revenues Over (Under) Expenditures	\$ 759,291	\$ (1,986,674)	\$ 2,315,863
Other Financing Sources (Uses)			
Transfers in	\$ 425,235	\$ -	\$ -
Transfers out	-	-	-
Total Other Financing Sources (Uses)	\$ 425,235	\$ -	\$ -
Net Change in Fund Balances	\$ 1,184,526	\$ (1,986,674)	\$ 2,315,863
Fund Balances - January 1	20,574,078	4,867,647	13,064,584
Increase (decrease) in inventories	-	(144,375)	-
Fund Balances - December 31	\$ 21,758,604	\$ 2,736,598	\$ 15,380,447

EXHIBIT 5

Forfeited Tax Sale	Environmental Trust	Capital Projects	Non-Major Funds	Total Governmental Fund
\$ -	\$ -	\$ 2,549	\$ 245,246	\$ 20,160,403
-	-	-	-	1,753,671
-	-	-	-	113,835
986,576	-	212,000	86,273	17,309,485
-	-	-	-	3,831,092
-	-	-	-	11,600
-	-	-	-	8,900
-	89,253	-	-	890,244
1,744,154	17,603	11,963	-	3,431,625
\$ 2,730,730	\$ 106,856	\$ 226,512	\$ 331,519	\$ 47,510,855
\$ -	\$ -	\$ -	\$ 1,691	\$ 6,210,424
-	-	-	30,780	9,513,281
-	-	-	461,656	14,340,469
-	-	-	-	2,120,311
-	-	-	-	9,054,414
-	-	-	-	1,806,689
-	-	-	-	15,000
1,832,109	178,280	-	-	2,433,186
-	-	-	-	37,500
-	-	3,420	-	3,420
\$ 1,832,109	\$ 178,280	\$ 3,420	\$ 494,127	\$ 45,534,694
\$ 898,621	\$ (71,424)	\$ 223,092	\$ (162,608)	\$ 1,976,161
\$ -	\$ -	\$ 157,953	\$ 996	\$ 584,184
(426,231)	-	-	(157,953)	(584,184)
\$ (426,231)	\$ -	\$ 157,953	\$ (156,957)	\$ -
\$ 472,390	\$ (71,424)	\$ 381,045	\$ (319,565)	\$ 1,976,161
4,377,618	5,010,939	11,439,264	710,292	60,044,422
-	-	-	-	(144,375)
\$ 4,850,008	\$ 4,939,515	\$ 11,820,309	\$ 390,727	\$ 61,876,208

**CASS COUNTY
WALKER, MINNESOTA**

EXHIBIT 6

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES--GOVERNMENTAL ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2012**

Net change in fund balances - total governmental funds (Exhibit 5) \$ 1,976,161

Amounts reported for governmental activities in the statement of activities are different because:

In the funds, under the modified accrual basis, receivables not available for expenditure are deferred. In the statement of activities, those revenues are recognized when earned. The adjustment to revenue between the fund statements and the statement of activities is the increase or decrease in revenue deferred as unavailable.

December 31		
Deferred revenue - unavailable	\$ 4,311,826	
Less: timber sales	(16,361)	
January 1		
Deferred revenue - unavailable	(4,326,362)	
Plus: timber sales	<u>65,625</u>	34,728

Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. In the statement of activities, the gain or loss on the disposal of capital assets is reported; in the governmental funds, proceeds from the sale increase financial resources. The difference is the net book value of assets sold.

Expenditures for general capital assets and infrastructure	\$ 7,505,200	
Current year depreciation	<u>(3,139,284)</u>	4,365,916

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Change in compensated absences	\$ (5,669)	
Change in other postemployment benefits	(1,406,866)	
Change in inventories	<u>(144,375)</u>	<u>(1,556,910)</u>

Change in Net Position of Governmental Activities (Exhibit 2) \$ 4,819,895

FIDUCIARY FUNDS

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CASS COUNTY
WALKER, MINNESOTA

EXHIBIT 7

FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET POSITION
DECEMBER 31, 2012

	<u>Agency</u>
<u>Assets</u>	
Cash and pooled investments	\$ 1,194,499
Petty cash and change funds	440
Total Assets	<u><u>\$ 1,194,939</u></u>
<u>Liabilities</u>	
Salaries payable	\$ 58,309
Due to other governments	1,049,823
Prepaid taxes	86,807
Total Liabilities	<u><u>\$ 1,194,939</u></u>

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DISCRETELY PRESENTED COMPONENT UNITS

**CASS COUNTY
WALKER, MINNESOTA**

EXHIBIT 8

**COMBINING STATEMENT OF NET POSITION
DISCRETELY PRESENTED COMPONENT UNITS
DECEMBER 31, 2012**

	Housing and Redevelopment Authority	Pine River Sanitary Sewer District	Total
<u>Assets</u>			
Current assets			
Cash and pooled investments	\$ 55,486	\$ 46,233	\$ 101,719
Special assessments receivable - prior	-	21,443	21,443
Accounts receivable - net	15,459	9,204	24,663
Accrued interest receivable	11	-	11
Prepaid items	3,097	5,135	8,232
Total current assets	\$ 74,053	\$ 82,015	\$ 156,068
Restricted assets			
Cash and pooled investments	\$ 39,309	\$ 225,125	\$ 264,434
Noncurrent assets			
Note receivable	\$ 123,535	\$ -	\$ 123,535
Capital assets			
Nondepreciable	25,753	10,000	35,753
Depreciable - net	347,137	1,846,885	2,194,022
Total noncurrent assets	\$ 496,425	\$ 1,856,885	\$ 2,353,310
Total Assets	\$ 609,787	\$ 2,164,025	\$ 2,773,812

**CASS COUNTY
WALKER, MINNESOTA**

**EXHIBIT 8
(Continued)**

**COMBINING STATEMENT OF NET POSITION
DISCRETELY PRESENTED COMPONENT UNITS
DECEMBER 31, 2012**

	<u>Housing and Redevelopment Authority</u>	<u>Pine River Sanitary Sewer District</u>	<u>Total</u>
<u>Liabilities</u>			
Current liabilities			
Accounts payable	\$ 7,071	\$ 2,704	\$ 9,775
Salaries payable	2,179	10,411	12,590
Compensated absences payable - current	2,813	13,512	16,325
Accrued interest payable	39	2,594	2,633
Notes payable - current	4,348	185,860	190,208
Customer deposits - current	4,224	-	4,224
Other current liabilities	744	-	744
Total current liabilities	\$ 21,418	\$ 215,081	\$ 236,499
Noncurrent liabilities			
Notes payable - long-term	\$ 3,998	1,108,153	1,112,151
Loans payable	34,205	-	34,205
Other noncurrent liabilities	1,670	-	1,670
Total noncurrent liabilities	\$ 39,873	\$ 1,108,153	\$ 1,148,026
Total Liabilities	\$ 61,291	\$ 1,323,234	\$ 1,384,525
<u>Net Position</u>			
Net investment in capital assets	\$ 330,339	\$ 560,600	\$ 890,939
Restricted for capital projects	26,396	38,428	64,824
Unrestricted	191,761	241,763	433,524
Total Net Position	\$ 548,496	\$ 840,791	\$ 1,389,287

**CASS COUNTY
WALKER, MINNESOTA**

**COMBINING STATEMENT OF ACTIVITIES
DISCRETELY PRESENTED COMPONENT UNITS
FOR THE YEAR ENDED DECEMBER 31, 2012**

	Expenses	Program Fees, Charges, Fines, and Other
Component Units		
Housing and Redevelopment Authority	\$ 560,605	\$ 60,834
Pine River Sanitary District	547,336	492,258
Total Component Units	\$ 1,107,941	\$ 553,092

General Revenues and Other Items

Investment income

Change in net position

Net Position - Beginning

Net Position - Ending

EXHIBIT 9

<u>Revenues</u>	<u>Net (Expense) Revenue and Changes in Net Position</u>		
<u>Capital Grants and Contributions</u>	<u>Housing and Redevelopment Authority</u>	<u>Pine River Area Sanitary District</u>	<u>Total</u>
\$ 403,591	\$ (96,180)	\$ -	\$ (96,180)
92,040	-	36,962	36,962
<u>\$ 495,631</u>	<u>\$ (96,180)</u>	<u>\$ 36,962</u>	<u>\$ (59,218)</u>
	539	1,068	1,607
	<u>\$ (95,641)</u>	<u>\$ 38,030</u>	<u>\$ (57,611)</u>
	<u>644,137</u>	<u>802,761</u>	<u>1,446,898</u>
	<u>\$ 548,496</u>	<u>\$ 840,791</u>	<u>\$ 1,389,287</u>

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**CASS COUNTY
WALKER, MINNESOTA**

NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2012

1. Summary of Significant Accounting Policies

The County’s financial statements are prepared in accordance with generally accepted accounting principles (GAAP) as of and for the year ended December 31, 2012. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). The more significant accounting policies established in GAAP and used by the County are discussed below.

A. Financial Reporting Entity

Cass County was established May 7, 1897, and is an organized county having the powers, duties, and privileges granted counties by Minn. Stat. ch. 373. As required by accounting principles generally accepted in the United States of America, these financial statements present Cass County (primary government) and its component units for which the County is financially accountable. The County is governed by a five-member Board of Commissioners elected from districts within the County. The Board is organized with a chair and vice chair elected at the annual meeting in January of each year.

Discretely Presented Component Units

While part of the reporting entity, discretely presented component units are presented in a separate column in the government-wide financial statements to emphasize that they are legally separate from the County. The following component units of Cass County are discretely presented:

<u>Component Unit</u>	<u>Component Unit Included in Reporting Entity Because</u>	<u>Separate Financial Statements Available at</u>
Cass County Housing and Redevelopment Authority (HRA) provides services pursuant to Minn. Stat. §§ 469.001-.047.	County appoints members, and the HRA is a financial burden.	Cass County HRA Backus, Minnesota 56435
Pine River Area Sanitary District (District) provides services pursuant to Minn. Stat. § 116A.24.	County appoints members, and the District is a financial burden.	Pine River Area Sanitary District P. O. Box 354 Pine River, Minnesota 56474

**CASS COUNTY
WALKER, MINNESOTA**

1. Summary of Significant Accounting Policies

A. Financial Reporting Entity (Continued)

Joint Ventures

The County participates in several joint ventures described in Note 6.D. The County also participates in a jointly-governed organization described in Note 6.E.

B. Basic Financial Statements

1. Government-Wide Statements

The government-wide financial statements (the statement of net position and the statement of activities) display information about the primary government and its component units. These statements include the financial activities of the overall County government, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities. Governmental activities are normally supported by taxes and intergovernmental revenues.

In the government-wide statement of net position, the governmental activities column: (a) is presented on a consolidated basis by column; and (b) is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The County's net position is reported in three parts: (1) net investment in capital assets; (2) restricted net position; and (3) unrestricted net position. The County first utilizes restricted resources to finance qualifying activities.

The statement of activities demonstrates the degree to which the direct expenses of each function of the County's governmental activities are offset by program revenues. Direct expenses are those clearly identifiable with a specific function or activity. Program revenues include: (1) fees, fines, and charges paid by the recipients of goods, services, or privileges provided by a given function or activity; and (2) grants and contributions restricted to meeting the operational or capital requirements of a particular function or activity. Revenues not classified as program revenues, including all taxes, are presented as general revenues.

**CASS COUNTY
WALKER, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements (Continued)

2. Fund Financial Statements

The fund financial statements provide information about the County's funds, including its fiduciary funds. Separate statements for each fund category--governmental and fiduciary--are presented. The emphasis of governmental fund financial statements is on major individual governmental funds, with each displayed as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor funds.

The County reports the following major governmental funds:

The General Fund is the County's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Road and Bridge Special Revenue Fund is used to account for the proceeds of revenue sources restricted to expenditures related to public works activities. Revenues are generated from taxes, state aid, and federal programs.

The Health, Human, and Veterans Services Special Revenue Fund is used to account for economic assistance and community health and social services programs. Revenues are generated from taxes, state aid, and federal grants.

The Forfeited Tax Sale Special Revenue Fund is used to account for proceeds from the sale or rental of lands forfeited to the State of Minnesota pursuant to Minn. Stat. ch. 282. The distribution of the net proceeds, after deducting the expenses of the County for managing the tax-forfeited lands, is governed by Minn. Stat. § 282.08. Title to the tax-forfeited lands remains with the state until sold by the County.

The Environmental Trust Permanent Fund is used to account for sale of land, including interest, under 1999 Minn. Laws, ch. 180. The principal from the sale of land may not be expended, while any interest earnings may be spent by the County Board only for the purposes related to the improvement of natural resources.

**CASS COUNTY
WALKER, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

The Capital Projects Fund is used to account for the accumulation of resources for building and remodeling projects.

Additionally, the County reports the following fund types:

The Debt Service Fund is used to accumulate resources for the payment of principal, interest, and the related costs of long-term debt.

Agency funds account for resources held by the County in a purely custodial capacity and do not present results of operations or have a measurement focus. Agency funds include Taxes and Penalties, State of Minnesota, School Districts, Towns and Cities, Minnesota Counties Information Systems, and the Mississippi Headwaters Board.

C. Measurement Focus and Basis of Accounting

The government-wide and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Shared revenues are generally recognized in the period the appropriation goes into effect. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Cass County considers all revenues as available if collected within 60 days after the end of the current period, except for reimbursement (expenditure-driven) grants, for which the period is 90 days. Property and other taxes, shared revenues, licenses, and interest are

**CASS COUNTY
WALKER, MINNESOTA**

1. Summary of Significant Accounting Policies

C. Measurement Focus and Basis of Accounting (Continued)

all considered susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, compensated absences, and claims and judgments, which are recognized as expenditures to the extent that they have matured. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

When both restricted and unrestricted resources are available for use, it is the County's policy to use restricted resources first and then unrestricted resources as needed.

D. Assets, Liabilities, and Net Position or Equity

1. Cash and Pooled Investments

The cash balances of substantially all funds are pooled and invested by the County Auditor/Treasurer for the purpose of increasing earnings through investment activities. Pooled and fund investments are reported at their fair value at December 31, 2012, based on market prices. Pursuant to Minn. Stat. § 385.07, investment earnings on cash and pooled investments are credited to the General Fund. Other funds received investment earnings based on other state statutes, grant agreements, contracts, and bond covenants. Pooled investment earnings for 2012 were \$772,699.

2. Deposits and Investments

Cass County invests in an external investment pool, the Minnesota Association of Governments Investing for Counties (MAGIC) Fund, which is created under a joint powers agreement pursuant to Minn. Stat. § 471.59. The MAGIC Fund is not registered with the Securities and Exchange Commission (SEC), but does operate in a manner consistent with Rule 2a-7 prescribed by the SEC pursuant to the Investment Company Act of 1940 (17 C.F.R. § 270.2a-7). The investment in the pool is measured at the net asset value per share provided by the pool. Information relating to the MAGIC Fund can be obtained from Client Services Group, Minnesota Association of Governments Investing for Counties, c/o PFM Asset Management LLC, P. O. Box 11760, Harrisburg, Pennsylvania 17108-11760.

**CASS COUNTY
WALKER, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Position or Equity (Continued)

3. Receivables and Payables

Activity between funds representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as either “due to/from other funds” (the current portion of interfund loans) or “advances to/from other funds” (the noncurrent portion of interfund loans). All other outstanding balances between funds are reported as “due to/from other funds.”

All receivables, including those of the discretely presented component units, are shown net of an allowance for uncollectibles.

Property taxes are levied as of January 1 on property values assessed as of the same date. The tax levy notice is mailed in March with the first half payment due May 15 and the second half payment due October 15. Unpaid taxes at December 31 become liens on the respective property and are classified in the financial statements as prior taxes receivable.

4. Inventories and Prepaid Items

All inventories are valued at cost using the first in/first out method. Inventories in governmental funds are recorded as expenditures when purchased rather than when consumed.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in government-wide statements.

5. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (roads, bridges, sidewalks, and similar items), are reported in the applicable governmental activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$25,000 and an estimated useful life in excess of two years.

**CASS COUNTY
WALKER, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Position or Equity

5. Capital Assets (Continued)

Effective January 1, 2011, Cass County revised its capitalization threshold to \$50,000 for all subsequent capital acquisitions. The capitalization threshold for computer software, including internally generated software, is \$150,000. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Property, plant, and equipment of the primary government, as well as the component units, are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	50
Building improvements	10 - 30
Public domain infrastructure	50 - 75
Furniture, equipment, and vehicles	5 - 12
Land improvements	15
Intangibles	2 - 5

6. Compensated Absences

The liability for compensated absences reported in the financial statements consists of unpaid, accumulated annual and sick leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included. Compensated absences are accrued when incurred in the government-wide and fiduciary fund financial statements. A liability for these amounts is reported in the governmental funds only if they have matured as a result of employee resignations and retirements.

**CASS COUNTY
WALKER, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Position or Equity (Continued)

7. Deferred Revenue

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds and the government-wide financial statements also defer revenue recognition in connection with resources that have been received, but not yet earned.

8. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of position. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of the debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources, while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

9. Classification of Net Position

Net position in government-wide statements and in proprietary fund type statements are classified in the following categories:

Net investment in capital assets - the amount of net position representing capital assets, net of accumulated depreciation, and reduced by outstanding debt attributed to the acquisition, construction, or improvement of the assets.

**CASS COUNTY
WALKER, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Position or Equity

9. Classification of Net Position (Continued)

Restricted net position - the amount of net position for which external restrictions have been imposed by creditors, grantors, contributors, or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position - the amount of net position that do not meet the definition of restricted or net investment in capital assets.

10. Classification of Fund Balances

Fund balance is divided into five classifications based primarily on the extent to which the County is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

Nonspendable - amounts that cannot be spent because they are not in spendable form, or are legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash.

Restricted - amounts for which constraints have been placed on the use of resources either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

Committed - amounts that can be used only for the specific purposes imposed by formal action (ordinance or resolution) of the County Board. Those committed amounts cannot be used for any other purpose unless the Board removes or changes the specified use by taking the same type of actions (ordinance or resolution) it employed to previously commit these amounts.

**CASS COUNTY
WALKER, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Position or Equity

10. Classification of Fund Balances (Continued)

Assigned - amounts the County intends to use for specific purposes that do not meet the criteria to be classified as restricted or committed. In governmental funds other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the General Fund, assigned amounts represent intended uses established by the County Board, the Chief Financial Officer, or the County Administrator who has been delegated that authority by Board resolution.

Unassigned - the residual classification for the General Fund and includes all spendable amounts not contained in the other fund balance classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted or committed.

The County applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

11. General Fund Minimum Fund Balance Policy

At the end of each fiscal year, Cass County will maintain spendable - unassigned portions of the fund balance in a range equal to 40 to 50 percent of the General Fund current budgeted operating expenditures. In addition to working capital needs, this accommodates emergency contingency concerns.

In the event that the minimum fund balance levels fall below the desired range, the Chief Financial Officer shall report such amounts to the County Board, and the County shall create a plan to restore the appropriate levels.

**CASS COUNTY
WALKER, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Position or Equity

11. General Fund Minimum Fund Balance Policy (Continued)

Should the actual amount rise above the desired range, any excess funds will remain unassigned pending the Board's final decision concerning transfer to another fund or additional General Fund commitments.

12. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

Reconciliation of the County's total cash and investments to the basic financial statements follows:

Government-wide statement of net position	
Governmental activities	
Cash and pooled investments	\$ 58,992,639
Petty cash and change funds	2,591
Investments	4,144,790
Discretely presented component units	
Cash and pooled investments	101,719
Restricted cash and pooled investments	264,434
Statement of fiduciary net position	
Cash and pooled investments	1,194,499
Petty cash and change funds	440
	<hr/>
Total Cash and Investments	\$ 64,701,112

**CASS COUNTY
WALKER, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

a. Deposits

The County is authorized by Minn. Stat. §§ 118A.02 and 118A.04 to designate a depository for public funds and to invest in certificates of deposit. The County is required by Minn. Stat. § 118A.03 to protect deposits with insurance, surety bond, or collateral. The market value of collateral pledged shall be at least ten percent more than the amount on deposit at the close of the financial institution's banking day, not covered by insurance or bonds.

Authorized collateral includes treasury bills, notes and bonds; issues of U.S. government agencies; general obligations rated "A" or better and revenue obligations rated "AA" or better; irrevocable standby letters of credit issued by the Federal Home Loan Bank; and certificates of deposit. Minnesota statutes require that securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or in an account at a trust department of a commercial bank or other financial institution that is not owned or controlled by the financial institution furnishing the collateral.

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the County's deposits may not be returned to it. The County has a deposit policy for custodial credit risk and follows Minnesota statutes regarding pledged collateral. The market value of collateral must equal 110 percent of the deposits not covered by insurance or surety bonds. As of December 31, 2012, both the County's deposits and the deposits of its discretely presented component units were fully covered by insurance, surety bonds, and collateral, and were not exposed to custodial credit risk.

**CASS COUNTY
WALKER, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

b. Investments

The County may invest in the following types of investments as authorized by Minn. Stat. §§ 118A.04 and 118A.05:

- (1) securities which are direct obligations or are guaranteed or insured issues of the United States, its agencies, its instrumentalities, or organizations created by an act of Congress, except mortgage-backed securities defined as “high risk” by Minn. Stat. § 118A.04, subd. 6;
- (2) mutual funds through shares of registered investment companies provided the mutual fund receives certain ratings depending on its investments;
- (3) general obligations of the State of Minnesota and its municipalities, and in certain state agency and local obligations of Minnesota and other states provided such obligations have certain specified bond ratings by a national bond rating service;
- (4) bankers’ acceptances of United States banks;
- (5) commercial paper issued by United States corporations or their Canadian subsidiaries that is rated in the highest quality category by two nationally recognized rating agencies and matures in 270 days or less; and
- (6) with certain restrictions, in repurchase agreements, securities lending agreements, joint powers investment trusts, and guaranteed investment contracts.

**CASS COUNTY
WALKER, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

Interest Rate Risk

Interest rate risk is the risk that changes in the market interest rates will adversely affect the fair value of an investment. The County minimizes its exposure to interest rate risk by investing in both short-term and long-term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. It is the County's policy to invest only in securities that meet the ratings requirements set by state statute.

Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities in the possession of an outside party. The County has a policy to minimize investment custodial credit risk. Of the County's investments at December 31, 2012, \$7,083,099 was subject to custodial credit risk.

Concentration of Credit Risk

The concentration of credit risk is the risk of loss that may be caused by the County's investment in a single issuer. It is the County's policy that U.S. Treasury securities, U.S. agency securities, and obligations backed by U.S. Treasury and/or U.S. agency securities may be held without limit.

**CASS COUNTY
WALKER, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

The following table presents the County's deposit and investment balances at December 31, 2012, and information relating to potential investment risks:

Investment Type	Credit Risk		Concentration Risk	Interest Rate Risk	Carrying (Fair) Value
	Credit Rating	Rating Agency	Over 5 Percent of Portfolio	Maturity Date	
U.S. government agency securities					
Federal National Mortgage Association Pool	AAA/AA+	Moody's/S&P	<5%	08/23/2027	\$ 995,660
Federal Home Loan Mortgage Corporation Note	AAA/AA+	Moody's/S&P		02/15/2022	\$ 2,351,668
Federal Home Loan Mortgage Corporation Note	AAA/AA+	Moody's/S&P		02/22/2022	501,000
Federal Home Loan Mortgage Corporation Note	AAA/AA+	Moody's/S&P		03/14/2022	1,002,710
Federal Home Loan Mortgage Corporation Note	AAA/AA+	Moody's/S&P		03/28/2022	1,104,202
Federal Home Loan Mortgage Corporation Note	AAA/AA+	Moody's/S&P		03/28/2022	501,155
Federal Home Loan Mortgage Corporation Note	AAA/AA+	Moody's/S&P		03/14/2022	1,001,417
Federal Home Loan Mortgage Corporation Note	AAA/AA+	Moody's/S&P		03/21/2022	1,003,083
Federal Home Loan Mortgage Corporation Note	AAA/AA+	Moody's/S&P		03/21/2022	1,002,850
Total Federal Home Loan Mortgage Corporation Notes			15.3%		\$ 8,468,085
Federal Home Loan Bank Bonds	AAA/AA+	Moody's/S&P		04/29/2022	\$ 1,002,700
Federal Home Loan Bank Bonds	AAA/AA+	Moody's/S&P		05/21/2027	1,012,490
Federal Home Loan Bank Bonds	AAA/AA+	Moody's/S&P		12/27/2024	997,800
Federal Home Loan Bank Bonds	AAA/AA+	Moody's/S&P		07/30/2024	884,204
Federal Home Loan Bank Bonds	AAA/AA+	Moody's/S&P		10/29/2027	500,680
Federal Home Loan Bank Bonds	AAA/AA+	Moody's/S&P		12/20/2024	994,730
Federal Home Loan Bank Bonds	AAA/AA+	Moody's/S&P		05/18/2022	1,146,793
Federal Home Loan Bank Bonds	AAA/AA+	Moody's/S&P		07/18/2022	2,750,715
Federal Home Loan Bank Bonds	AAA/AA+	Moody's/S&P		07/19/2022	1,500,450
Federal Home Loan Bank Bonds	AAA/AA+	Moody's/S&P		07/26/2022	1,795,284
Federal Home Loan Bank Bonds	AAA/AA+	Moody's/S&P		07/26/2022	825,206
Federal Home Loan Bank Bonds	AAA/AA+	Moody's/S&P		08/15/2022	4,752,043
Federal Home Loan Bank Bonds	AAA/AA+	Moody's/S&P		08/16/2022	759,953
Federal Home Loan Bank Bonds	AAA/AA+	Moody's/S&P		10/25/2022	1,425,285
Federal Home Loan Bank Bonds	AAA/AA+	Moody's/S&P		11/15/2022	1,250,525
Federal Home Loan Bank Bonds	AAA/AA+	Moody's/S&P		11/28/2022	2,488,750
Federal Home Loan Bank Bonds	AAA/AA+	Moody's/S&P		12/05/2022	3,274,689
Federal Home Loan Bank Bonds	AAA/AA+	Moody's/S&P		12/27/2022	493,400
Federal Home Loan Bank Bonds	AAA/AA+	Moody's/S&P		12/28/2022	2,002,840
Federal Home Loan Bank Bonds	AAA/AA+	Moody's/S&P		10/04/2022	2,975,446
Federal Home Loan Bank Bonds	AAA/AA+	Moody's/S&P		07/17/2022	500,613
Federal Home Loan Bank Bonds	AAA/AA+	Moody's/S&P		11/18/2020	1,022,883
Federal Home Loan Bank Bonds	AAA/AA+	Moody's/S&P		07/25/2022	740,296
Federal Home Loan Bank Bonds	AAA/AA+	Moody's/S&P		09/07/2022	1,501,476
Total Federal Home Loan Bank Bonds			66.1%		\$ 36,599,251
Total U.S. government agency securities					\$ 46,062,996

**CASS COUNTY
WALKER, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

Investment Type	Credit Risk		Concentration Risk	Interest Rate Risk	Carrying (Fair) Value
	Credit Rating	Rating Agency	Over 5 Percent of Portfolio	Maturity Date	
Federal Farm Credit Banks Bonds					
Federal Farm Credit Banks Funding Corporation Bonds	AAA/AA+	Moody's/S&P		08/16/2021	\$ 498,058
Federal Farm Credit Banks Funding Corporation Bonds	AAA/AA+	Moody's/S&P		02/20/2025	500,097
Total Federal Farm Credit Banks Bonds			<5%		\$ 998,155
Federal Home Loan Repurchase Agreements					
Federal Home Loan Bank	AAA/AA+	Moody's/S&P		06/19/2012	\$ 106,483
Federal Home Loan Bank	AAA/AA+	Moody's/S&P		12/10/2012	1,064,826
Total Federal Home Loan Bank Repurchase Agreements			<5%		\$ 1,171,309
Federal Farm Credit Bank Repurchase Agreements					
Federal Farm Credit Bank Funding Corporation Bonds	AAA/AA+	Moody's/S&P		08/19/2013	\$ 501,053
Federal Farm Credit Bank Funding Corporation Bonds	AAA/AA+	Moody's/S&P		07/17/2016	1,002,346
Total Federal Farm Credit Bank Repurchase Agreements			<5%		\$ 1,503,399
Federal National Mortgage Association Repurchase Agreements					
Federal National Mortgage Association	AAA/AA+	Moody's/S&P	<5%	02/16/2013	\$ 1,001,104
Federal Home Loan Mortgage Corporation Repurchase Agreements					
Federal Home Loan Mortgage Corporation	AAA/AA+	Moody's/S&P	<5%	05/05/2013	\$ 504,183
Investment pools/mutual funds					
Wells Fargo Government Money Market Fund	Aaa-mf/AAAm	Moody's/S&P	<5%		\$ 3,700
Negotiable certificates of deposit					
BNC National Bank Phoenix AX	N/A	N/A	<5%	08/08/2018	\$ 245,000
Compass Bank Birmingham AL	N/A	N/A	<5%	06/23/2014	248,000
First American Bank IL	N/A	N/A	<5%	08/24/2020	245,000
1st Financial Bank Dakota Dunes SD	N/A	N/A	<5%	09/21/2020	245,000
Magna Bank Memphis TN	N/A	N/A	<5%	07/20/2020	245,000
Welch State Bank OK	N/A	N/A	<5%	06/27/2020	249,000
Discover Bank Greenwood DE	N/A	N/A	<5%	07/18/2017	247,744
Goldman Sachs Bank New York, NY	N/A	N/A	<5%	06/06/2019	248,026
American Express Bank	N/A	N/A	<5%	06/10/2013	150,836
American Express Centurion	N/A	N/A	<5%	06/10/2013	150,836
BMW Bank Utah	N/A	N/A	<5%	11/12/2015	101,852
GE Capital Bank	N/A	N/A	<5%	06/22/2015	248,050
GE Money Bank	N/A	N/A	<5%	11/05/2015	102,731
JP Morgan Chase	N/A	N/A	<5%	07/10/2013	99,099
State Bank of India	N/A	N/A	<5%	06/22/2015	248,650
Citi Bank Salt Lake City UT	N/A	N/A	<5%	06/27/2019	245,287
GE Capital Retail Bank Draper UT	N/A	N/A	<5%	06/10/2019	146,776
World Financial Network Wilmington DE	N/A	N/A	<5%	06/08/2017	202,100
Sallie Mae Bank Murray UT	N/A	N/A	<5%	12/17/2013	102,773
Eva Bank	N/A	N/A	<5%	12/30/2013	102,521
CapMark Bank	N/A	N/A	<5%	06/10/2013	248,124
Total negotiable certificates of deposit					\$ 4,122,405

**CASS COUNTY
WALKER, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

Investment Type	Credit Risk		Concentration Risk	Interest Rate Risk	Carrying (Fair) Value
	Credit Rating	Rating Agency	Over 5 Percent of Portfolio	Maturity Date	
Total investments					\$ 55,367,251
Deposits - Primary Government					8,964,677
Deposits - Component Units					318,659
Investments - Component Units					47,194
Petty cash and change funds - Primary Government					3,031
Petty cash and change funds - Component Units					300
Total Cash and Investments					\$ 64,701,112

N/A - Not Applicable

<5% - Concentration is less than 5% of investments

2. Receivables

Receivables as of December 31, 2012, for the County's governmental activities, including the applicable allowances for uncollectible accounts, are as follows:

	Total Receivables	Amounts Not Scheduled for Collection During the Subsequent Year
Governmental Activities		
Taxes	\$ 985,825	\$ -
Special assessments	173,870	157,400
Accounts receivable	2,004,731	-
Accrued interest	204,068	-
Due from other governments	2,223,850	-
Total Governmental Activities	\$ 5,592,344	\$ 157,400
Long-Term Receivable from South Country Health Alliance	\$ 643,226	\$ 428,818

**CASS COUNTY
WALKER, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets

2. Receivables (Continued)

Cass County was a member of the South Country Health Alliance (SCHA) but terminated its membership effective December 31, 2010. The County's equity interest in the SCHA at December 31, 2010, was \$1,072,043. The County will receive five annual installment payments of \$214,408 plus interest. Cass County received its first installment in September 2011 and the second installment in September 2012.

3. Minimum Future Rents Receivable

Cass County receives rental payments from the United States Postal Service (USPS) for office space in a building it purchased from the Pine River State Bank in Pine River, Minnesota. The USPS entered into a two-year lease with the bank effective July 1, 2006, to occupy 4,500 square feet of building space at an annual rental fee of \$37,125. Upon the transfer of ownership, Cass County assumed the lease agreement, and the terms of the lease remained unchanged.

Upon expiration of the lease on December 31, 2011, the USPS elected to renew the lease for a period of five years ending December 31, 2016. The annual rental fee remained unchanged.

Minimum future rents on the lease are:

<u>Year Ending December 31</u>		
2013	\$	37,125
2014		37,125
2015		37,125
2016		<u>37,125</u>
Total	\$	<u>148,500</u>

**CASS COUNTY
WALKER, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets

3. Minimum Future Rents Receivable (Continued)

On July 17, 2007, the Cass County Board of Commissioners renewed a five-year lease agreement with the United States Department of Agriculture, Natural Resources Conservation Services (NRCS), for the rental of 575 square feet of building space at the Cass County Courthouse for an annual fee of \$6,066 per year, effective January 1, 2008.

Upon expiration of the lease on December 31, 2012, the NRCS elected to renew the lease for a period of one year ending December 31, 2013. The annual rental fee remained unchanged.

Upon expiration of the lease on December 31, 2013, the NRCS does not have the option to renew the lease. The lease may also be terminated by either party with a 60-day written notice.

Minimum future rents on the lease are:

<u>Year Ending December 31</u>	
2013	<u>\$ 6,066</u>

In July 2007, SBA Towers II, LLC, (SBA) assumed ownership of a communications tower from Midwest Real Estate Properties, LLC. The tower occupies 5,625 square feet of County land, including 14,440 square feet of easement. Upon assuming tower ownership, an existing land lease agreement with Cass County was transferred to SBA. SBA agreed to pay the County a base rent of \$424 per month, plus an additional 15 percent of the collection revenue earned from each additional tenant utilizing tower antennas and equipment.

Upon expiration of the lease in September 2012, SBA Towers II, LLC, elected to renew the lease for a period of five years ending September 15, 2017. Upon expiration of the lease, SBA Towers II, LLC, has four additional renewal options for five-year terms each. For each renewal term, the monthly rent is increased by three percent. SBA currently pays the County \$1,199 per month in rental fees under the existing lease agreement.

**CASS COUNTY
WALKER, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets

3. Minimum Future Rents Receivable (Continued)

Minimum future rents on the lease are:

Year Ending December 31		
2013	\$	14,388
2014		14,388
2015		14,388
2016		14,388
2017		10,192
Total	\$	67,744

On November 15, 2005, American Cellular Corporation (ACC) Tower Sub, LLC, (Global Tower Partners) assumed ownership of a communications tower from ACC of Minnesota, a Delaware Corporation. Upon assuming ownership, an existing land lease agreement with Cass County was transferred to Global Towers. Global Tower Partners agreed to pay the County a base rent of \$6,000 payable in annual installments in advance. This rental fee shall increase annually during the renewal term effective as of each anniversary by an amount equal to four percent.

Upon expiration of the lease on December 31, 2015, Global Towers has two additional renewal options for ten-year terms each. The same terms and conditions will be in effect during the renewal terms, except rent, which will be renegotiated each subsequent renewal term.

Minimum future rents on the lease are:

Year Ending December 31		
2013	\$	8,211
2014		8,540
2015		8,881
Total	\$	25,632

**CASS COUNTY
WALKER, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets (Continued)

4. Capital Assets

Capital asset activity for the year ended December 31, 2012, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 4,966,853	\$ 7,020	\$ -	\$ 4,973,873
Construction in progress	6,021,435	7,144,247	1,695,222	11,470,460
Total capital assets not depreciated	\$ 10,988,288	\$ 7,151,267	\$ 1,695,222	\$ 16,444,333
Capital assets depreciated				
Buildings	\$ 21,044,360	\$ 396,504	\$ -	\$ 21,440,864
Machinery, furniture, and equipment	5,457,873	181,392	-	5,639,265
Infrastructure	117,042,335	1,471,259	-	118,513,594
Total capital assets depreciated	\$ 143,544,568	\$ 2,049,155	\$ -	\$ 145,593,723
Less: accumulated depreciation for				
Buildings	\$ 8,125,140	\$ 443,258	\$ -	\$ 8,568,398
Machinery, furniture, and equipment	3,845,654	363,387	-	4,209,041
Infrastructure	28,313,015	2,332,639	-	30,645,654
Total accumulated depreciation	\$ 40,283,809	\$ 3,139,284	\$ -	\$ 43,423,093
Total capital assets depreciated, net	\$ 103,260,759	\$ (1,090,129)	\$ -	\$ 102,170,630
Capital Assets, Net	\$ 114,249,047	\$ 6,061,138	\$ 1,695,222	\$ 118,614,963

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental Activities	
General government	\$ 138,393
Public safety	135,501
Highways and streets, including depreciation of infrastructure assets	2,585,877
Health, human, and veterans services	49,430
Sanitation	35,464
Culture and recreation	1,812
Conservation of natural resources	192,807
Total Depreciation Expense - Governmental Activities	\$ 3,139,284

**CASS COUNTY
WALKER, MINNESOTA**

2. Detailed Notes on All Funds (Continued)

B. Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of December 31, 2012, is as follows:

1. Due To/From Other Funds

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>	<u>Purpose</u>
General	Forfeited Tax Sale	\$ 335,327	Forfeited tax apportionment
	Health, Human, and Veterans Services	530	Reimbursement for services
	Environmental Trust	<u>1,080</u>	Reimbursement for services
	Total Due to General Fund	<u>\$ 336,937</u>	
Road and Bridge	General	\$ 2,405	Reimbursement for services
	Health, Human, and Veterans Services	847	Reimbursement for services
	Forfeited Tax Sale	191	Reimbursement for services
	Environmental Trust	30,000	Reimbursement for services
	Other governmental	<u>35,493</u>	Reimbursement for services
Total Due to Road and Bridge	<u>\$ 68,936</u>		
Environmental Trust	Forfeited Tax Sale	<u>\$ 82,000</u>	Reimburse Legislative Citizen's Commission on Natural Resources expenses
Other governmental funds	Forfeited Tax Sale	<u>\$ 996</u>	Forfeited tax apportionment
Total Due To/From Other Funds		<u>\$ 488,869</u>	

The outstanding balances between funds result mainly from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

**CASS COUNTY
WALKER, MINNESOTA**

2. Detailed Notes on All Funds

B. Interfund Receivables, Payables, and Transfers (Continued)

2. Interfund Transfers

Interfund transfers for the year ended December 31, 2012, consisted of the following:

Transfers to General Fund from Forfeited Tax Fund	\$ 425,235	Forfeited tax apportionment and indirect costs
Transfers to other governmental funds from Forfeited Tax Fund	996	Forfeited tax apportionment
Transfers to Capital Projects Fund from Debt Service Fund	157,953	Transfer to close Debt Service Fund
Total Interfund Transfers	\$ 584,184	

C. Liabilities

1. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2012, was as follows:

Governmental Activities

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Compensated absences	\$ 2,775,132	\$ 1,671,536	\$ 1,626,345	\$ 2,820,323	\$ 222,875
Net other postemployment benefits	7,372,823	2,653,593	1,246,727	8,779,689	-
Total Long-Term Liabilities	\$ 10,147,955	\$ 4,325,129	\$ 2,873,072	\$ 11,600,012	\$ 222,875

**CASS COUNTY
WALKER, MINNESOTA**

2. Detailed Notes on All Funds

C. Liabilities (Continued)

2. Lease Obligations

The County is committed under various operating leases for office space, parking, data processing, copiers, office equipment, and radio towers and equipment. The following is a summary of the operating lease expense for 2012:

Type of Property	Amount
Rental of office space and parking	\$ 15,200
Data processing, copiers, and office equipment	61,398
Radio towers and equipment	36,650
Total Rental Expense	\$ 113,248

Future minimum payments under operating leases, which are not reflected in these financial statements, consist of the following at December 31, 2012:

Year Ended	Amount
2013	\$ 109,754
2014	103,006
2015	94,623
2016	70,738
2017	36,038
Total Future Minimum Lease Payments	\$ 414,159

3. Construction Commitments

The government has active construction projects as of December 31, 2012. The projects include the following:

	Spent-to-Date	Remaining Commitment
Governmental Activities		
Road and bridges	\$ 551,864	\$ 346,212

**CASS COUNTY
WALKER, MINNESOTA**

3. Pension Plans

A. Defined Benefit Plans

Plan Description

All full-time and certain part-time employees of Cass County are covered by defined benefit pension plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA administers the General Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Local Government Correctional Service Retirement Fund (the Public Employees Correctional Fund), which are cost-sharing, multiple-employer retirement plans. These plans are established and administered in accordance with Minn. Stat. chs. 353 and 356.

General Employees Retirement Fund members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security, and Basic Plan members are not. All new members must participate in the Coordinated Plan and benefits vest after three years of credited service (five years for those first eligible for membership after June 30, 2010).

All police officers, firefighters, and peace officers who qualify for membership by statute are covered by the Public Employees Police and Fire Fund. Members who are employed in a county correctional institution as a correctional guard or officer, a joint jailer/dispatcher, or as a supervisor of correctional guards or officers or of joint jailer/dispatchers and are directly responsible for the direct security, custody, and control of the county correctional institution and its inmates, are covered by the Public Employees Correctional Fund. For members first eligible for membership after June 30, 2010, benefits vest on a graduated schedule starting with 50 percent after five years and increasing 10 percent for each year of service until fully vested after ten years. Members eligible for membership before July 1, 2010, are fully vested after three years of service.

PERA provides retirement benefits as well as disability benefits to members and benefits to survivors upon death of eligible members. Benefits are established by state statute. Defined retirement benefits are based on a member's average yearly salary for the five highest-paid consecutive years of allowable service, age, and years of credit at termination of service.

**CASS COUNTY
WALKER, MINNESOTA**

3. Pension Plans

A. Defined Benefit Plans

Plan Description (Continued)

Two methods are used to compute benefits for the General Employees Retirement Fund Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2 percent of average salary for each of the first ten years of service and 2.7 percent for each year thereafter. For a Coordinated Plan member, the annuity accrual rate is 1.2 percent of average salary for each of the first ten years and 1.7 percent for each successive year. Using Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service. For the Public Employees Police and Fire Fund members, the annuity accrual rate is 3.0 percent of average salary for each year of service. For Public Employees Correctional Fund members, the annuity accrual rate is 1.9 percent of average salary for each year of service.

For all General Employees Retirement Fund members hired prior to July 1, 1989, whose annuity is calculated using Method 1, and for all Public Employees Police and Fire Fund and Public Employees Correctional Fund members, a full annuity is available when age plus years of service equal 90. Normal retirement age is 55 for Public Employees Police and Fire Fund members and Public Employees Correctional Fund members, and either 65 or 66 (depending on date hired) for General Employees Retirement Fund members. A reduced retirement annuity is also available to eligible members seeking early retirement.

The benefit provisions stated in the previous paragraphs of this section are current provisions and apply to active plan participants. Vested, terminated employees who are entitled to benefits but are not yet receiving them are bound by the provisions in effect at the time they last terminated public service.

PERA issues a publicly available financial report that includes financial statements and required supplementary information for the General Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Public Employees Correctional Fund. That report may be obtained on the internet at www.mnpera.org; by writing to PERA at 60 Empire Drive, Suite 200, Saint Paul, Minnesota 55103-2088; or by calling 651-296-7460 or 1-800-652-9026.

**CASS COUNTY
WALKER, MINNESOTA**

3. Pension Plans

A. Defined Benefit Plans (Continued)

Funding Policy

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Rates for employer and employee contributions are set by Minn. Stat. ch. 353. These statutes are established and amended by the State Legislature. The County makes annual contributions to the pension plans equal to the amount required by state statutes. General Employees Retirement Fund Basic Plan members and Coordinated Plan members are required to contribute 9.10 and 6.25 percent, respectively, of their annual covered salary. Public Employees Police and Fire Fund members are required to contribute 9.60 percent. Public Employees Correctional Fund members are required to contribute 5.83 percent of their annual covered salary.

The County is required to contribute the following percentages of annual covered payroll in 2012:

General Employees Retirement Fund	
Basic Plan members	11.78%
Coordinated Plan members	7.25
Public Employees Police and Fire Fund	14.40
Public Employees Correctional Fund	8.75

The County's contributions for the years ending December 31, 2012, 2011, and 2010, for the General Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Public Employees Correctional Fund were:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
General Employees Retirement Fund	\$ 811,315	\$ 813,322	\$ 772,269
Public Employees Police and Fire Fund	340,199	321,713	310,893
Public Employees Correctional Fund	66,076	68,402	68,356

These contribution amounts are equal to the contractually required contributions for each year as set by state statute.

**CASS COUNTY
WALKER, MINNESOTA**

3. Pension Plans (Continued)

B. Defined Contribution Plan

Four eligible elected officials of the County are covered by the Public Employees Defined Contribution Plan, a multiple-employer, deferred compensation plan administered by PERA. The plan is established and administered in accordance with Minn. Stat. ch. 353D, which may be amended by the State Legislature. The plan is a tax qualified plan under Section 401(a) of the Internal Revenue Code, and all contributions by or on behalf of employees are tax deferred until time of withdrawal.

Plan benefits depend solely on amounts contributed to the plan plus investment earnings, less administrative expenses. For those qualified personnel who elect to participate, Minn. Stat. § 353D.03 specifies plan provisions, including the employee and employer contribution rates. An eligible elected official who decides to participate contributes 5.00 percent of salary, which is matched by the employer. Employees may elect to make member contributions in an amount not to exceed the employer share. Employee and employer contributions are combined and used to purchase shares in one or more of the seven accounts of the Minnesota Supplemental Investment Fund. For administering the plan, PERA receives 2.00 percent of employer contributions and 0.25 percent of the assets in each member account annually.

Total contributions by dollar amount and percentage of covered payroll made by the County during the year ended December 31, 2012, were:

	<u>Employee</u>	<u>Employer</u>
Contribution amount	\$ 5,597	\$ 5,597
Percentage of covered payroll	5%	5%

Required contribution rates were 5.00 percent.

4. Postemployment Benefits

A. Plan Description and Funding Policy

Cass County provides health insurance benefits for certain retired employees under a single-employer, self-insured plan and life insurance under a fully insured plan. The County pays basic life insurance (\$10,000 coverage) and contributes towards the health insurance for qualified retired employees (employees who were employed by the County over ten years and retired on or after January 1, 1972) for life.

**CASS COUNTY
WALKER, MINNESOTA**

4. Postemployment Benefits

A. Plan Description and Funding Policy (Continued)

The rates are based on the County's group policy rates and are financed on a pay-as-you-go basis. For employees hired on or after January 1, 1992, qualified retired employees (employees who were employed by the County over 20 years and are eligible for annuity or disability under a statutory Minnesota public employees retirement program) will receive a contribution towards health insurance coverage for the period from retirement until eligibility for Medicare coverage. No life insurance is provided for retirees hired on or after January 1, 1992, and no contribution is made towards health insurance for those hired on or after January 1, 2008.

The County provides benefits for retirees as required by Minn. Stat. § 471.61, subd. 2b. Active employees who retire from the County when eligible to receive a retirement benefit from PERA (or similar plan), and do not participate in any other health benefits program providing coverage similar to that, will be eligible to continue coverage with respect to both themselves and their eligible dependent(s) under the County's health benefits program. Retirees are required to pay 100 percent of the total premium cost. Since the premium is a blended rate determined on the entire active and retiree population, the retirees are receiving an implicit rate subsidy. As of January 1, 2012, there were approximately 130 retirees receiving health benefits from the County's health plan.

B. Annual OPEB Costs and Net OPEB Obligation

The County's annual other postemployment benefits (OPEB) cost is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years.

**CASS COUNTY
WALKER, MINNESOTA**

4. Postemployment Benefits

B. Annual OPEB Costs and Net OPEB Obligation (Continued)

The following table shows the components of the County's annual OPEB cost for 2012, the amount actually contributed to the plan, and changes in the County's net OPEB obligation.

ARC	\$	2,774,058
Interest on net OPEB obligation		331,777
Adjustments to ARC		(452,242)
		(452,242)
Annual OPEB cost	\$	2,653,593
Contributions during the year		(1,246,727)
		(1,246,727)
Increase in net OPEB obligation	\$	1,406,866
Net OPEB obligation - Beginning of Year		7,372,823
		7,372,823
Net OPEB obligation - End of Year	\$	8,779,689

C. Funded Status and Funding Progress

The County's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the excess OPEB contributions or net OPEB obligation for 2010, 2011, and 2012, were as follows:

Fiscal Year Ended	Annual OPEB Cost	Employer Contribution	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
December 31, 2010	\$ 2,865,381	\$ 1,114,501	38.9%	\$ 5,873,738
December 31, 2011	2,679,197	1,180,112	44.0	7,372,823
December 31, 2012	2,653,593	1,246,727	47.0	8,779,689

The actuarial accrued liability for benefits as of January 1, 2011, the most recent actuarial valuation date, is \$32.80 million. The County currently has no assets that have been irrevocably deposited in a trust for future health benefits; thus, the entire amount is unfunded. The covered payroll (annual payroll of active employees covered by the plan) is \$11.64 million. The ratio of the unfunded actuarial accrued liabilities (UAAL) to covered payroll is 281.9 percent.

**CASS COUNTY
WALKER, MINNESOTA**

4. Postemployment Benefits (Continued)

D. Actuarial Methods and Assumptions

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and health care cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress - Other Postemployment Benefits, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the substantive plan (as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities, consistent with long-term perspective of the calculations.

In the January 1, 2011, actuarial valuation, the entry age normal actuarial cost method was used. The actuarial assumptions included a 4.50 percent discount rate, which is based on the estimated long-term investment yield on the general assets of the County. The annual health care cost trend rate is 8.00 percent initially, reduced incrementally to an ultimate rate of 5.00 percent after six years. The unfunded actuarial accrued liability is being amortized over 30 years on a closed basis. The remaining amortization period at December 31, 2012, was 25 years.

5. Postemployment Health Care Plans

MSRS Health Care Savings Plan

County employees participate in a Health Care Savings Plan (HCSP) administered by the Minnesota State Retirement System (MSRS). The plan is authorized under Minn. Stat. § 352.98 and through an Internal Revenue Service (IRS) private letter ruling establishing the HCSP as a tax-exempt benefit as of July 29, 2002. The plan is open to any active public employees in Minnesota if they are covered under certain public service retirement plans.

**CASS COUNTY
WALKER, MINNESOTA**

5. Postemployment Health Care Plans

MSRS Health Care Savings Plan (Continued)

Under the terms of the HCSP, employees are allowed to save money, tax-free, to use upon termination of employment to pay for eligible health care expenses. The IRS private letter ruling requires mandatory participation of all employees in each bargaining unit in order to gain tax-free benefits. Allowable amounts deposited into individual accounts must be negotiated by each individual bargaining unit and the employer. The plan must be written into the collective bargaining agreement or a Memo of Understanding. For those employees not covered by a bargaining unit, amounts to be deposited into individual accounts must be agreed to by the employer and included in a written personnel policy.

Under Cass County's plan, participating employees shall include all non-union personnel that are eligible for participation in the Cass County Cafeteria Plan, except elected officials and judicial appointments. Plan participation shall consist of employee payment to the Post Retirement Health Insurance Plan with severance benefits earned pursuant to these Personnel Rules and Policies as follows: (a) 100 percent of eligible sick leave severance upon termination and (b) 100 percent of eligible vacation severance upon termination.

Through a Memo of Understanding between Cass County and Minnesota Teamsters Public and Law Enforcement Employees Union, Local No. 320, those unionized employees participation will consist of: (a) all of the employee's severance pay pursuant to Article 21.1 of the Labor Agreement, up to a maximum of 400 hours of accumulated sick leave, will be paid into the Post Retirement Health Insurance Plan upon leave from employment with the County; and (b) on the last pay period of each calendar year, the employee's comp time accumulation over forty (40) hours will be paid into the Post Retirement Health Insurance Plan pursuant to Article 17.1 of the Labor Agreement.

6. Summary of Significant Contingencies and Other Items

A. Risk Management

The County is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; injuries to employees; or natural disasters. The County has entered into a joint powers agreement with other Minnesota counties to form the Minnesota Counties Intergovernmental Trust (MCIT) to cover both workers' compensation and property and casualty liabilities. The County self-insures for

**CASS COUNTY
WALKER, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

A. Risk Management (Continued)

employee medical and short-term disability coverage. For other risk, the County carries commercial insurance. There were no significant reductions in insurance from the prior year. The amount of settlements did not exceed insurance coverage for the past three fiscal years.

The Workers' Compensation Division of MCIT is self-sustaining based on the contributions charged, so that total contributions plus compounded earnings on these contributions will equal the amount needed to satisfy claims liabilities and other expenses. MCIT participates in the Workers' Compensation Reinsurance Association with coverage at \$460,000 per claim in 2012 and \$470,000 per claim in 2013. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess the County in a method and amount to be determined by MCIT.

The Property and Casualty Division of MCIT is self-sustaining, and the County pays an annual premium to cover current and future losses. MCIT carries reinsurance for its property lines to protect against catastrophic losses. Should the MCIT Property and Casualty Division liabilities exceed assets, MCIT may assess the County in a method and amount to be determined by MCIT.

Employee medical and short-term disability insurance coverage is accounted for in the General Fund of the County. Costs include medical coverage for employees, dependents, and retirees, and short-term disability coverage for employees. Costs also include charges for claims management by a third-party administrator. Premiums are based on an actuarial study by the third-party administrator and include a provision for expected future catastrophic losses; the premiums also include a provision for administrative costs and stop-loss insurance. The County carries individual specific stop-loss insurance for claims that exceed \$150,000 per year per employee contract, or 125.0 percent, of the annual premium base. All County funds with personnel are charged for the County's share of costs for providing insurance coverage. Employees contribute a share of coverage costs through payroll deductions and retirees are paid for, in part, by County funds and by the retirees themselves. The liability at year-end is based on subsequent claims, and it includes a reasonable provision for incurred but not reported claims (IBNRs). A claims liability is included in the General Fund accounts payable at year-end.

**CASS COUNTY
WALKER, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

A. Risk Management (Continued)

Changes in the balances of claims liabilities during the past two years are as follows:

	Year Ended December 31	
	2012	2011
Unpaid claims, beginning of fiscal year	\$ 194,628	\$ 434,656
Incurred claims (including IBNRs)	4,370,358	3,831,726
Claims payments	(4,299,381)	(4,071,754)
Unpaid Claims, End of Fiscal Year	\$ 265,605	\$ 194,628

B. Contingent Liabilities

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of the expenditures that may be disallowed by the grantor cannot be determined at this time, although the County expects such amounts, if any, to be immaterial.

The County is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the County Attorney, the resolution of these matters will not have a material adverse effect on the financial condition of the government.

C. Tax-Forfeited Land

The County manages approximately 253,643 acres of state-owned tax-forfeited land. This land generates revenues primarily from recreational land leases and land and timber sales. Land management costs, including forestry costs such as site preparation, seedlings, tree planting, and logging roads, are accounted for as current operating expenditures. Revenues in excess of expenditures are distributed to cities, towns, and school districts within the County according to state statute.

**CASS COUNTY
WALKER, MINNESOTA**

6. Summary of Significant Contingencies and Other Items (Continued)

D. Joint Ventures

Northwestern Minnesota Juvenile Center

The Northwestern Minnesota Juvenile Center was established by Beltrami, Cass, Clearwater, Hubbard, Kittson, Lake of the Woods, Pennington, and Roseau Counties in 1971 under the authority of the Joint Powers Act, pursuant to Minn. Stat. § 471.59, for the purpose of providing rehabilitation and other services to juveniles under the jurisdiction of the court system. The governing board is composed of not less than 7 or more than 15 members, with at least 1 member appointed by each participating county, as provided in the Center's bylaws. At present, there are 13 directors: Beltrami, Cass, Hubbard, Pennington, and Roseau Counties have 2 directors each; the other member counties have 1 director each.

In the event of dissolution of the Center, the unexpended balance of monies and assets held by the Center will be divided among the member counties in the same proportion as their respective financial responsibilities.

Financing is provided by state and federal grants, charges for services, and appropriations from member counties. Cass County made \$225,222 in payments to the Northwestern Minnesota Juvenile Center in 2012. Beltrami County, in an agent capacity, reports the cash transactions of the Center as an agency fund on its financial statements. Complete financial information can be obtained from:

Beltrami County Auditor's Office
Beltrami County Courthouse
P. O. Box 247
Bemidji, Minnesota 56619

Minnesota Counties Information Systems (MCIS)

Aitkin, Carlton, Cass, Chippewa, Cook, Crow Wing, Dodge, Itasca, Koochiching, Lac qui Parle, Lake, Sherburne, and St. Louis Counties entered into a joint powers agreement, pursuant to Minn. Stat. § 471.59, for the purpose of operating and maintaining data processing facilities and management information systems for use by its members.

**CASS COUNTY
WALKER, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

D. Joint Ventures

Minnesota Counties Information Systems (MCIS) (Continued)

MCIS is governed by a 13-member Board, composed of a member appointed by each of the participating counties' Boards of Commissioners. Financing is obtained through user charges to the member. Cass County is the fiscal agent for MCIS.

Separate financial information can be obtained from:

Minnesota Counties Information Systems
413 Southeast 7th Avenue
Grand Rapids, Minnesota 55744

Mississippi Headwaters Board

The Mississippi Headwaters Board was established on February 22, 1980, by Aitkin, Beltrami, Cass, Clearwater, Crow Wing, Hubbard, Itasca, and Morrison Counties, pursuant to the provisions of Minn. Stat. § 471.59. The purpose of the Board is to prepare, adopt, and implement a comprehensive land use plan designed to protect and enhance the Mississippi River and related shore land areas within the counties.

The Mississippi Headwaters Board consists of eight members, one appointed from each participating county. Funding is obtained through federal, state, local, and private sources. Cass County maintains the accounting records of the Board. In July 2012, Crow Wing County assumed fiscal agent duties. The Cass County Board of Commissioners approved transfer of all funds and accounting records to Crow Wing County.

Complete financial information can be obtained from:

Mississippi Headwaters Board
Cass County Courthouse
4th Street and Minnesota Avenue
Walker, Minnesota 56484

**CASS COUNTY
WALKER, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

D. Joint Ventures (Continued)

Northeast Minnesota Regional Radio Board

The Northeast Minnesota Regional Radio Board was established through a joint powers agreement, pursuant to Minn. Stat. §§ 471.59 and 403.39, to provide for regional administration of enhancements to the Statewide Public Safety Radio and Communication System (ARMER) and to enhance and improve interoperable public safety communications.

The joint powers are the Counties of Aitkin, Carlton, Cass, Cook, Crow Wing, Itasca, Kanabec, Koochiching, Lake, Pine, and St. Louis and the Cities of Duluth, Hibbing, International Falls, and Virginia. Control of the Northeast Minnesota Regional Radio Board is vested in a Board of Directors composed of one County Commissioner from each of the member counties and one City Councilor from each of the member cities. In addition, there is one member from the Northeast Minnesota Regional Advisory Committee, one member from the Northeast Minnesota Regional Radio System User Committee, and one member from the Northeast Minnesota Owners and Operators Committee who are also voting members of the Board.

Itasca County is the fiscal agent for the Northeast Minnesota Regional Radio Board. Funding is provided by grants and contributions from participating members. Cass County made \$380 in contributions in 2012.

Northwest Minnesota Household Hazardous Waste Management Group

Beltrami, Cass, Clearwater, Kittson, Lake of the Woods, Marshall, Pennington, Polk, Red Lake, and Roseau Counties entered into a joint powers agreement, pursuant to Minn. Stat. § 471.59, for the purpose of cooperatively managing, handling, and transporting household hazardous waste; providing public education on safe waste management; and providing for the disposition of non-recyclable household hazardous waste.

The governing body of the Waste Management Group is composed of one County Commissioner from each of the member counties. Responsibility for budgeted expenditures is shared, with 50 percent divided on a population-ratio basis. In the event of dissolution of the Waste Management Group, the net position shall be divided among the member counties in the same proportion as their respective financial responsibilities.

**CASS COUNTY
WALKER, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

D. Joint Ventures

Northwest Minnesota Household Hazardous Waste Management Group (Continued)

The Waste Management Group has no long-term debt. Financing is provided by appropriations from the member counties when needed. Cass County paid an assessment of \$13,596 to the Waste Management Group in 2012. Clearwater County, in an agent capacity, reports the cash transactions of the Waste Management Group as an agency fund on its financial statements.

Separate financial information can be obtained from:

Waste Management Group
P. O. Box 186
Bagley, Minnesota 56621

Central Minnesota Emergency Medical Services Region

The Central Minnesota Emergency Medical Services Region was established in 2001, under Minn. Stat. § 471.59, to improve access, delivery, and effectiveness of the emergency medical services system; promote systematic and cost-effective delivery of services; and identify and address system needs within the member counties. The member counties are Benton, Cass, Chisago, Crow Wing, Isanti, Kanabec, Mille Lacs, Morrison, Pine, Sherburne, Stearns, Todd, Wadena, and Wright. The Region established a Board comprising one Commissioner from each member county. The Region's Board has financial responsibility, and Stearns County is the fiscal agent.

Complete financial information can be obtained from:

Central Minnesota Emergency Medical Services Region
Administration Center
705 Courthouse Square
St. Cloud, Minnesota 56303-4701

**CASS COUNTY
WALKER, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

D. Joint Ventures (Continued)

Rural Fire Association

Cass County, in conjunction with Unorganized Township Five; the Leech Lake Band of Ojibwe; the City of Cass Lake; and the Towns of Pike Bay, Wilkinson, Ottertail Peninsula, Farden, Ten Lakes, and Brook Lake, entered into a joint powers agreement November 22, 2004, pursuant to Minn. Stat. § 471.59, for the purpose of providing fire protection services to the residents of the districts. The agreement provides for the joint ownership, operation, and control of firefighting equipment used in providing protective services.

In the event of the withdrawal by any member, its investment shall be forfeited, except by a three-quarters vote of the entire Joint Powers Board. Any such investment may not be withdrawn until the end of the calendar year of withdrawal. Cass County paid the Cass Lake Volunteer Rural Fire Association \$7,111 in 2012.

E. Jointly-Governed Organization

Cass County, in conjunction with other governmental entities and various private organizations, has formed the jointly-governed organization listed below:

Cass County/Leech Lake Reservation Children's Initiative Collaborative

The Cass County/Leech Lake Reservation Children's Initiative Collaborative was established to create opportunities to enhance family strengths and support through service coordination and access to informal communication. Cass County has no operational or financial control over the Collaborative.

**CASS COUNTY
WALKER, MINNESOTA**

7. Component Unit Disclosures

A. Summary of Significant Accounting Policies

In addition to those identified in Note 1, the County's discretely presented component units have the following significant accounting policies.

Reporting Entities

The Cass County Housing and Redevelopment Authority (HRA) is governed by a five-member Board of Directors who are appointed by the County Board.

The Pine River Area Sanitary District (District) is governed by a five-member Board of Commissioners appointed by the County Board.

Measurement Focus and Basis of Accounting

The HRA's and the District's financial statements are presented under the accrual basis of accounting. Enterprise funds are used to account for component unit activities. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

B. Detailed Notes

1. Assets

a. Deposits and Investments

(1) Deposits

Cash balances of the HRA are combined (pooled) and deposited in depositories authorized by Minnesota statutes. The HRA's cash balances are classified as either cash or restricted cash. Restricted cash represents funds set aside to be used in the future for capital replacements and repairs and for the accumulation of capital recovery charges to be used to make principal and interest payments on outstanding long-term debt. Other amounts are restricted for tenant security deposits. Interest earned on cash balances is allocated to cash and restricted cash balances.

**CASS COUNTY
WALKER, MINNESOTA**

7. Component Unit Disclosures

B. Detailed Notes

1. Assets

a. Deposits and Investments

(1) Deposits (Continued)

The District's cash balances are combined (pooled) and deposited in depositories authorized by Minnesota statutes. The District's cash balances are classified as either cash or restricted cash. Restricted cash represents funds set aside to be used in the future for plant and equipment replacements and for the accumulation of capital recovery charges to be used to make principal and interest payments on outstanding long-term debt. Interest earned on cash balances is allocated to cash and restricted cash balances.

The HRA and the District component unit's total cash and investments are reported as follows:

	Cass County HRA	Pine River Area Sanitary District
Government-wide statement of net position		
Cash	\$ 47,601	\$ 45,933
Petty cash	-	300
Restricted assets		
Cash	-	225,125
Investments	47,194	-
Total Cash and Investments	\$ 94,795	\$ 271,358

The HRA and the District are authorized by Minn. Stat. §§ 118A.02 and 118A.04 to designate a depository for public funds and to invest in certificates of deposit. The HRA and the District are required by Minn. Stat. § 118A.03 to protect deposits with insurance, surety bond, or collateral. The market value of collateral pledged shall be at least ten percent more than the amount on deposit at the close of the financial institution's banking day, not covered by insurance or bonds.

**CASS COUNTY
WALKER, MINNESOTA**

7. Component Unit Disclosures

B. Detailed Notes

1. Assets

a. Deposits and Investments

(1) Deposits (Continued)

Authorized collateral includes treasury bills, notes and bonds; issues of U.S. government agencies; general obligations rated “A” or better and revenue obligations rated “AA” or better; irrevocable standby letters of credit issued by the Federal Home Loan Bank; and certificates of deposit. Minnesota statutes require that securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or in an account at a trust department of a commercial bank or other financial institution not owned or controlled by the financial institution furnishing the collateral.

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the deposits of the HRA or the District may not be returned. Both the HRA and the District have deposit policies for custodial credit risk. As of December 31, 2012, the HRA and the District were not exposed to any custodial credit risk.

(2) Investments

The HRA and the District may investment in the following types of investments as authorized by Minn. Stat. §§ 118A.04 and 118A.05:

- securities which are direct obligations or are guaranteed or insured issues of the United States, its agencies, its instrumentalities, or organizations created by an act of Congress, except mortgage-backed securities defined as “high risk” by Minn. Stat. § 118A.04, subd. 6;

**CASS COUNTY
WALKER, MINNESOTA**

7. Component Unit Disclosures

B. Detailed Notes

1. Assets

a. Deposits and Investments

(2) Investments (Continued)

- mutual funds through shares of registered investment companies provided the mutual fund receives certain ratings depending on its investments;
- general obligations of the State of Minnesota and its municipalities, and in certain state agency and local obligations of Minnesota and other states provided such obligations have certain specified bond ratings by a national bond rating service;
- bankers' acceptances of United States banks;
- commercial paper issued by United States corporations or their Canadian subsidiaries that is rated in the highest quality category by two nationally recognized rating agencies and matures in 270 days or less; and
- with certain restrictions, in repurchase agreements, securities lending agreements, joint powers investment trusts, and guaranteed investment contracts.

As of and during the year ended December 31, 2012, neither the HRA nor the District owned any investments that required disclosure regarding interest rate risk, credit risk, custodial credit risk, or concentration of credit risk

**CASS COUNTY
WALKER, MINNESOTA**

7. Component Unit Disclosures

B. Detailed Notes

1. Assets (Continued)

b. Receivables

Receivables as of December 31, 2012, for each discretely presented component unit, including any applicable allowances for uncollectible accounts, are as follows:

	Cass County HRA	Pine River Area Sanitary District	Total Receivables	Amounts Not Scheduled for Collection During the Year
Special assessments	\$ -	\$ 21,443	\$ 21,443	\$ -
Accounts	15,470	9,204	24,674	-
Note	123,535	-	123,535	123,535
Total Component Units	\$ 139,005	\$ 30,647	\$ 169,652	\$ 123,535

c. Capital Assets

Component unit capital asset activity for the year ended December 31, 2012, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land				
Cass County HRA	\$ 25,753	\$ -	\$ -	\$ 25,753
Pine River Area Sanitary District	10,000	-	-	10,000
Total capital assets not depreciated	\$ 35,753	\$ -	\$ -	\$ 35,753
Capital assets depreciated				
Buildings and improvements				
Cass County HRA	\$ 814,047	\$ 3,679	\$ -	\$ 817,726
Pine River Area Sanitary District	2,417,253	-	-	2,417,253
Total buildings and improvements	\$ 3,231,300	\$ 3,679	\$ -	\$ 3,234,979
Water treatment facilities				
Pine River Area Sanitary District	\$ 4,118,288	\$ 104,761	\$ 10,728	\$ 4,212,321

**CASS COUNTY
WALKER, MINNESOTA**

7. Component Unit Disclosures

B. Detailed Notes

1. Assets

c. Capital Assets (Continued)

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets depreciated (Continued)				
Machinery, furniture, and equipment				
Cass County HRA	\$ 112,147	\$ -	\$ -	\$ 112,147
Pine River Area Sanitary District	118,854	6,075	22,450	102,479
Total machinery, furniture, and equipment	\$ 231,001	\$ 6,075	\$ 22,450	\$ 214,626
Total capital assets depreciated	\$ 7,580,589	\$ 114,515	\$ 33,178	\$ 7,661,926
Less: accumulated depreciation for				
Buildings and improvements				
Cass County HRA	\$ 457,457	\$ 27,463	\$ -	\$ 484,920
Pine River Area Sanitary District	2,354,908	43,784	8,630	2,390,062
Total buildings and improvements	\$ 2,812,365	\$ 71,247	\$ 8,630	\$ 2,874,982
Water treatment facilities				
Pine River Area Sanitary District	\$ 2,260,645	\$ 141,517	\$ -	\$ 2,402,162
Machinery, furniture, and equipment				
Cass County HRA	\$ 92,038	\$ 5,778	\$ -	\$ 97,816
Pine River Area Sanitary District	110,270	5,072	22,398	92,944
Total machinery, furniture, and equipment	\$ 202,308	\$ 10,850	\$ 22,398	\$ 190,760
Total accumulated depreciation	\$ 5,275,318	\$ 223,614	\$ 31,028	\$ 5,467,904
Total capital assets depreciated, net	\$ 2,305,271	\$ (109,099)	\$ 2,150	\$ 2,194,022
Total Capital Assets, Net	\$ 2,341,024	\$ (109,099)	\$ 2,150	\$ 2,229,775

Depreciation expense was charged to functions/programs of the discretely presented component units as follows:

Cass County HRA	\$ 33,241
Pine River Area Sanitary District	190,373
Total Depreciation Expense	\$ 223,614

**CASS COUNTY
WALKER, MINNESOTA**

7. Component Unit Disclosures

B. Detailed Notes (Continued)

2. Liabilities

The HRA entered into a loan agreement with the Minnesota Housing Finance Agency in connection with the publicly-owned transitional housing program. The loans are non-interest bearing and are due upon sale of the development property and other conditions of the program. Upon maturity, the loans are canceled, and loan repayments may be used for the revolving loan.

Loan Date	Term	Balance December 31, 2012
February 20, 1992	20 years	\$ 34,205
October 20, 2008	5 years	2,101
September 1, 2010	5 years	6,245
Total		\$ 42,551
Less: current portion		(4,348)
Long-Term Portion		\$ 38,203

Debt Service Requirements

The debt service requirements to maturity for the loan payable are as follows:

Year Ending December 31	Amount
2013	\$ 4,348
2014	2,360
2015	1,638
2016	-
Thereafter	34,205
Total	\$ 42,551

**CASS COUNTY
WALKER, MINNESOTA**

7. Component Unit Disclosures

B. Detailed Notes

2. Liabilities (Continued)

Long-Term Debt

On April 18, 1997, the District entered into a project loan and general obligation revenue bond purchase agreement with the Minnesota Public Facilities Authority (PFA) and Cass County for improvements and upgrading of the District's wastewater system.

On June 1, 2010, the District entered into General Obligation Sewer Revenue Note, Series 2010A, (MN Rural Water Micro-Loan, Series 2008) to finalize planned future plant expansion. As of December 31, 2011, \$79,730 of the proceeds remained unspent. All remaining proceeds were spent as of December 31, 2012.

Long-term debt outstanding at December 31, 2012, for the Pine River Area Sanitary District consists of the following:

<u>Type of Indebtedness</u>	<u>Final Maturity</u>	<u>Installment Amount</u>	<u>Interest Rate (%)</u>	<u>Original Issue Amount</u>	<u>Remaining Commitment</u>
1997A PFA G.O. Sewer Revenue Note	2019	\$ 75,939	1.13	\$ 1,366,190	\$ 520,856
1997B PFA G.O. Sewer Revenue Note	2020	94,191	-	1,883,810	706,429
2010A G.O. Sewer Revenue Note	2017	14,000	2.75	103,600	69,000
Total					\$ 1,296,285
Less: 2010A GO Sewer Revenue Note Bond Issuance Costs					(2,272)
Net Long-Term Debt					\$ 1,294,013

**CASS COUNTY
WALKER, MINNESOTA**

7. Component Unit Disclosures

B. Detailed Notes

2. Liabilities (Continued)

Debt Service Requirements

Public Facilities Authority Revenue Note debt service requirements to maturity for the District are as follows:

Year Ending December 31	PFA Sewer & G.O. Revenue Note
2013	\$ 193,328
2014	193,943
2015	194,518
2016	194,077
2017	185,637
2018 - 2020	360,481
Total	\$ 1,321,984
Less: interest	(25,699)
Total	\$ 1,296,285

The repayment of the 1997B PFA G.O. Sewer Revenue Note shall be forgiven, as the payments become due, upon: (1) a determination by the authority that Cass County and the Pine River Area Sanitary District are in full compliance with the Minnesota Pollution Control Agency's project performance requirements in Minnesota Rules, part 7077.0288, as amended or supplemented; and (2) the District certifies each year that a wastewater replacement fund is being maintained and funded equal to \$0.10 per 1,000 gallons of wastewater flow each year. The Minnesota Pollution Control Agency's Commissioner has provided written notification to the PFA of the District's satisfactory performance pursuant to Minnesota Rules, part 7077.0290.

Further, under the agreement, Cass County and the District are required to evidence the loan and supplemental assistance under general obligation debt. As the debt payments are forgiven as they become due, they will be recorded as capital contributions in the financial statements.

**CASS COUNTY
WALKER, MINNESOTA**

7. Component Unit Disclosures

B. Detailed Notes

2. Liabilities (Continued)

Changes in Long-Term Liabilities

The following is a summary of the District's long-term debt transactions for the year ended December 31, 2012.

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Pine River Area Sanitary District PFA G.O. Sewer Revenue Notes Payable	\$ 1,398,275	\$ -	\$ 170,990	\$ 1,227,285	\$ 171,860
General Obligation Sewer Revenue Note	83,000	-	14,000	69,000	14,000
Total Long-Term Liabilities	<u>\$ 1,481,275</u>	<u>\$ -</u>	<u>\$ 184,990</u>	<u>\$ 1,296,285</u>	<u>\$ 185,860</u>

3. Risk Management

The HRA is exposed to various risks of loss to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; workers' compensation claims; and natural disasters. Property and casualty and workers' compensation liabilities are insured. The HRA retains risk for the deductible portions of the insurance. The amounts of these deductibles are considered immaterial.

The District has entered into a joint powers agreement with the League of Minnesota Cities Insurance Trust (LMCIT). The LMCIT is a public entity risk pool currently operating as a common risk management and insurance program for Minnesota cities. The agreement for the formation of the LMCIT provides that the pool will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of reserved amounts for each insured event.

The pooling agreement allows for the pool to make additional assessments to make the pool self-sustaining. The District has determined that it is not possible to estimate the amount of such additional assessments; however, it is not expected to be material to the financial statements taken as a whole.

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REQUIRED SUPPLEMENTARY INFORMATION

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**CASS COUNTY
WALKER, MINNESOTA**

EXHIBIT A-1

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 10,108,690	\$ 10,108,690	\$ 10,110,621	\$ 1,931
Special assessments	1,650,000	1,650,000	1,753,671	103,671
Licenses and permits	84,540	84,540	106,655	22,115
Intergovernmental	2,370,437	2,370,437	3,064,997	694,560
Charges for services	2,393,000	2,393,000	2,295,117	(97,883)
Fines and forfeits	6,500	6,500	11,600	5,100
Gifts and contributions	-	-	7,150	7,150
Investment earnings	925,000	925,000	772,699	(152,301)
Miscellaneous	375,025	375,025	766,896	391,871
Total Revenues	\$ 17,913,192	\$ 17,913,192	\$ 18,889,406	\$ 976,214
Expenditures				
Current				
General government				
Commissioners	\$ 288,821	\$ 288,821	\$ 284,160	\$ 4,661
Courts	136,750	136,750	81,432	55,318
Law library	30,000	30,000	28,893	1,107
County administration	226,576	226,576	223,081	3,495
County auditor	1,306,197	1,306,197	1,300,595	5,602
County assessor	834,429	834,429	815,023	19,406
Attorney	973,516	973,516	964,067	9,449
Recorder	472,758	587,758	573,548	14,210
Planning and zoning	327,797	395,697	386,946	8,751
Buildings and plant	625,316	865,316	821,449	43,867
MIS	545,820	573,820	567,712	6,108
HHVS cost plan and reimbursement	5,500	5,500	5,100	400
Total general government	\$ 5,773,480	\$ 6,224,380	\$ 6,052,006	\$ 172,374
Public safety				
Sheriff	\$ 4,741,956	\$ 4,995,956	\$ 4,976,877	\$ 19,079
Boat and water safety	412,327	412,327	305,619	106,708
Emergency services	79,995	529,995	483,563	46,432
Coroner	90,000	115,000	113,886	1,114
Law enforcement center	2,269,110	2,485,390	2,419,499	65,891
Sentence to serve	83,563	98,563	93,649	4,914
Probation and parole	681,674	681,674	673,337	8,337
Longville ambulance subordinate service district	461,000	461,000	416,071	44,929
Total public safety	\$ 8,819,625	\$ 9,779,905	\$ 9,482,501	\$ 297,404

**CASS COUNTY
WALKER, MINNESOTA**

*EXHIBIT A-1
(Continued)*

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Expenditures				
Current (Continued)				
Sanitation				
Solid waste	\$ 2,326,974	\$ 2,326,974	\$ 2,120,311	\$ 206,663
Culture and recreation				
Parks	\$ 15,000	\$ 15,000	\$ 15,000	\$ -
Conservation of natural resources				
Cooperative extension	\$ 69,000	\$ 69,000	\$ 67,095	\$ 1,905
Mississippi Headwaters Board	17,850	17,850	17,850	-
Soil and water conservation	6,250	6,250	6,250	-
Environmental services	288,896	354,896	331,602	23,294
Total conservation of natural resources	<u>\$ 381,996</u>	<u>\$ 447,996</u>	<u>\$ 422,797</u>	<u>\$ 25,199</u>
Economic development				
Administration	\$ 37,500	\$ 37,500	\$ 37,500	\$ -
Total Expenditures	<u>\$ 17,354,575</u>	<u>\$ 18,831,755</u>	<u>\$ 18,130,115</u>	<u>\$ 701,640</u>
Excess of Revenues Over (Under) Expenditures	\$ 558,617	\$ (918,563)	\$ 759,291	\$ 1,677,854
Other Financing Sources (Uses)				
Transfers in	350,000	350,000	425,235	75,235
Net Change in Fund Balance	\$ 908,617	\$ (568,563)	\$ 1,184,526	\$ 1,753,089
Fund Balance - January 1	<u>20,574,078</u>	<u>20,574,078</u>	<u>20,574,078</u>	<u>-</u>
Fund Balance - December 31	<u>\$ 21,482,695</u>	<u>\$ 20,005,515</u>	<u>\$ 21,758,604</u>	<u>\$ 1,753,089</u>

**CASS COUNTY
WALKER, MINNESOTA**

EXHIBIT A-2

**BUDGETARY COMPARISON SCHEDULE
ROAD AND BRIDGE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 4,025,923	\$ 4,025,923	\$ 4,000,023	\$ (25,900)
Intergovernmental	5,060,054	5,060,054	7,015,830	1,955,776
Charges for services	565,000	565,000	701,729	136,729
Miscellaneous	2,000	2,000	174,557	172,557
Total Revenues	\$ 9,652,977	\$ 9,652,977	\$ 11,892,139	\$ 2,239,162
Expenditures				
Current				
Highways and streets				
Administration	\$ 797,765	\$ 797,765	\$ 717,771	\$ 79,994
Maintenance	3,180,634	4,307,634	4,270,456	37,178
Construction	3,735,000	7,335,000	7,303,617	31,383
Equipment maintenance and shop	1,757,406	1,757,406	1,420,284	337,122
Other	182,172	182,172	166,685	15,487
Total Expenditures	\$ 9,652,977	\$ 14,379,977	\$ 13,878,813	\$ 501,164
Net Change in Fund Balance	\$ -	\$ (4,727,000)	\$ (1,986,674)	\$ 2,740,326
Fund Balance - January 1	4,867,647	4,867,647	4,867,647	-
Increase (decrease) in inventories	-	-	(144,375)	(144,375)
Fund Balance - December 31	\$ 4,867,647	\$ 140,647	\$ 2,736,598	\$ 2,595,951

**CASS COUNTY
WALKER, MINNESOTA**

EXHIBIT A-3

**BUDGETARY COMPARISON SCHEDULE
HEALTH, HUMAN, AND VETERANS SERVICES SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 5,834,977	\$ 5,834,977	\$ 5,801,964	\$ (33,013)
Licenses and permits	5,735	5,735	7,180	1,445
Intergovernmental	5,963,042	5,963,042	5,943,809	(19,233)
Charges for services	933,913	933,913	834,246	(99,667)
Gifts and contributions	500	500	1,750	1,250
Investment earnings	-	-	28,292	28,292
Miscellaneous	402,650	402,650	716,452	313,802
Total Revenues	\$ 13,140,817	\$ 13,140,817	\$ 13,333,693	\$ 192,876
Expenditures				
Current				
General government				
Veterans service officer	\$ 180,055	\$ 180,055	\$ 156,727	\$ 23,328
Human services				
Income maintenance	\$ 3,171,643	\$ 3,171,643	\$ 3,179,733	\$ (8,090)
Social services	7,442,682	7,442,682	5,674,006	1,768,676
Children's initiative	283,000	283,000	200,675	82,325
Total human services	\$ 10,897,325	\$ 10,897,325	\$ 9,054,414	\$ 1,842,911
Health				
Public health	\$ 2,063,437	\$ 2,063,437	\$ 1,806,689	\$ 256,748
Total Expenditures	\$ 13,140,817	\$ 13,140,817	\$ 11,017,830	\$ 2,122,987
Net Change in Fund Balance	\$ -	\$ -	\$ 2,315,863	\$ 2,315,863
Fund Balance - January 1	13,064,584	13,064,584	13,064,584	-
Fund Balance - December 31	\$ 13,064,584	\$ 13,064,584	\$ 15,380,447	\$ 2,315,863

**CASS COUNTY
WALKER, MINNESOTA**

EXHIBIT A-4

**BUDGETARY COMPARISON SCHEDULE
FORFEITED TAX SALE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Intergovernmental	\$ 922,300	\$ 922,300	\$ 986,576	\$ 64,276
Miscellaneous	2,274,000	2,274,000	1,744,154	(529,846)
Total Revenues	\$ 3,196,300	\$ 3,196,300	\$ 2,730,730	\$ (465,570)
Expenditures				
Current				
Conservation of natural resources				
Reforestation	\$ 829,000	\$ 829,000	\$ 893,412	\$ (64,412)
In-lieu	130,000	130,000	63,916	66,084
Roads	30,000	30,000	-	30,000
Trails	256,500	256,500	191,766	64,734
Land commissioner	1,950,800	2,040,800	683,015	1,357,785
Total Expenditures	\$ 3,196,300	\$ 3,286,300	\$ 1,832,109	\$ 1,454,191
Excess of Revenues Over (Under) Expenditures	\$ -	\$ (90,000)	\$ 898,621	\$ 988,621
Other Financing Sources (Uses)				
Transfers out	-	-	(426,231)	(426,231)
Net Change in Fund Balance	\$ -	\$ (90,000)	\$ 472,390	\$ 562,390
Fund Balance - January 1	4,377,618	4,377,618	4,377,618	-
Fund Balance - December 31	\$ 4,377,618	\$ 4,287,618	\$ 4,850,008	\$ 562,390

**CASS COUNTY
WALKER, MINNESOTA**

EXHIBIT A-5

**SCHEDULE OF FUNDING PROGRESS - OTHER POSTEMPLOYMENT BENEFITS
DECEMBER 31, 2012**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
January 1, 2007	\$ -	\$ 35,971,965	\$ 35,971,965	0.0%	\$ 11,368,490	316.42%
January 1, 2009	-	33,948,649	33,948,649	0.0	12,141,633	279.60
January 1, 2011	-	32,800,116	32,800,116	0.0	11,636,994	281.86

**CASS COUNTY
WALKER, MINNESOTA**

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2012**

Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. The Capital Projects Fund adopts project-length budgets. All annual appropriations lapse at fiscal year-end.

Cass County utilizes a Budget Committee comprised of one appointed citizen from each commissioner district and two County Commissioners to review departmental requests and make recommendations to the County Board on budgetary and financial matters. Budget Committee staff includes the County Administrator, Chief Financial Officer, Assessor, Auditor/Treasurer, and Chief Deputy Treasurer.

By July of each year, all departments submit requests for appropriations to the County Auditor/Treasurer. The Budget Committee reviews and amends the departmental requests in order to develop a proposed budget and preliminary property tax levy. Before September 15, the proposed budget, along with a preliminary tax levy, is presented to the County Board for review. The County Board must approve a preliminary tax levy on or before September 15. A final tax levy and budget is adopted by the Board and certified to the Auditor/Treasurer on or before five business days after December 20.

The appropriated budget is prepared by fund, function, and department. Transfers of appropriations between departments require approval of the County Board. The legal level of budgetary control (the level at which expenditures may not legally exceed appropriations) is the fund level, except for the General Fund, which is at the department level.

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SUPPLEMENTARY INFORMATION

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**CASS COUNTY
WALKER, MINNESOTA**

NONMAJOR GOVERNMENTAL FUNDS

The Unorganized Town Special Revenue Fund is used to account for all funds to be used for construction and maintenance of highways and roads and to account for fire protection and emergency services provided to residents of unorganized townships.

The Debt Service Fund is used to account for the accumulation of resources for, and the payment of principal, interest, and the related costs of long-term debt. The Debt Service Fund was closed in 2012.

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CASS COUNTY
WALKER, MINNESOTA

EXHIBIT B-1

BALANCE SHEET
NONMAJOR GOVERNMENTAL FUND
DECEMBER 31, 2012

	<u>Unorganized Town Special Revenue</u>
<u>Assets</u>	
Cash and pooled investments	\$ 422,857
Undistributed cash in agency funds	1,417
Taxes receivable	
Prior	6,816
Special assessments receivable	
Due from other funds	<u>996</u>
Total Assets	<u>\$ 432,086</u>
<u>Liabilities and Fund Balances</u>	
Liabilities	
Due to other funds	\$ 35,493
Deferred revenue - unavailable	<u>5,866</u>
Total Liabilities	<u>\$ 41,359</u>
Fund Balances	
Committed to	
Road and bridge projects	\$ 350,000
Assigned to	
Unorganized towns	<u>40,727</u>
Total Fund Balances	<u>\$ 390,727</u>
Total Liabilities and Fund Balances	<u>\$ 432,086</u>

**CASS COUNTY
WALKER, MINNESOTA**

EXHIBIT B-2

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2012**

	Unorganized Town Special Revenue	Debt Service	Total
Revenues			
Taxes	\$ 245,224	\$ 22	\$ 245,246
Intergovernmental	86,273	-	86,273
	\$ 331,497	\$ 22	\$ 331,519
Expenditures			
Current			
General government	\$ 1,691	\$ -	\$ 1,691
Public safety	30,780	-	30,780
Highways and streets	461,656	-	461,656
	\$ 494,127	\$ -	\$ 494,127
Excess of Revenues Over (Under)			
Expenditures	\$ (162,630)	\$ 22	\$ (162,608)
Other Financing Sources (Uses)			
Transfers in	\$ 996	\$ -	\$ 996
Transfers out	-	(157,953)	(157,953)
	\$ 996	\$ (157,953)	\$ (156,957)
Net Change in Fund Balance	\$ (161,634)	\$ (157,931)	\$ (319,565)
Fund Balance - January 1	552,361	157,931	710,292
Fund Balance - December 31	\$ 390,727	\$ -	\$ 390,727

**CASS COUNTY
WALKER, MINNESOTA**

EXHIBIT B-3

**BUDGETARY COMPARISON SCHEDULE
UNORGANIZED TOWN SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 245,000	\$ 245,000	\$ 245,224	\$ 224
Intergovernmental	42,000	42,000	86,273	44,273
Total Revenues	\$ 287,000	\$ 287,000	\$ 331,497	\$ 44,497
Expenditures				
Current				
General government				
Elections	\$ 2,000	\$ 2,000	\$ 1,691	\$ 309
Public safety				
Other public safety	35,000	35,000	30,780	4,220
Highways and streets				
Maintenance	250,000	470,000	461,656	8,344
Total Expenditures	\$ 287,000	\$ 507,000	\$ 494,127	\$ 12,873
Excess of Revenues Over (Under)				
Expenditures	\$ -	\$ (220,000)	\$ (162,630)	\$ 57,370
Other Financing Sources (Uses)				
Transfers in	-	-	996	996
Net Change in Fund Balance	\$ -	\$ (220,000)	\$ (161,634)	\$ 58,366
Fund Balance - January 1	552,361	552,361	552,361	-
Fund Balance - December 31	\$ 552,361	\$ 332,361	\$ 390,727	\$ 58,366

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FIDUCIARY FUNDS

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**CASS COUNTY
WALKER, MINNESOTA**

AGENCY FUNDS

Agency funds are custodial in nature and do not present results of operations or have a measurement focus. These funds account for assets that the County holds for others in an agent capacity.

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**CASS COUNTY
WALKER, MINNESOTA**

EXHIBIT C-1

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2012**

	Balance January 1	Additions	Deductions	Balance December 31
<u>TAXES AND PENALTIES</u>				
<u>Assets</u>				
Cash and pooled investments	\$ <u>558,467</u>	\$ <u>51,674,493</u>	\$ <u>51,775,205</u>	\$ <u>457,755</u>
<u>Liabilities</u>				
Due to other governments	\$ 504,559	\$ 51,534,723	\$ 51,668,334	\$ 370,948
Prepaid taxes	<u>53,908</u>	<u>139,770</u>	<u>106,871</u>	<u>86,807</u>
Total Liabilities	\$ <u>558,467</u>	\$ <u>51,674,493</u>	\$ <u>51,775,205</u>	\$ <u>457,755</u>
<u>STATE OF MINNESOTA</u>				
<u>Assets</u>				
Cash and pooled investments	\$ <u>152,862</u>	\$ <u>10,497,060</u>	\$ <u>10,464,080</u>	\$ <u>185,842</u>
<u>Liabilities</u>				
Due to other governments	<u>\$ 152,862</u>	<u>\$ 10,497,060</u>	<u>\$ 10,464,080</u>	<u>\$ 185,842</u>
<u>SCHOOL DISTRICTS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ <u>-</u>	\$ <u>9,961,298</u>	\$ <u>9,961,289</u>	\$ <u>9</u>
<u>Liabilities</u>				
Due to other governments	<u>\$ -</u>	<u>\$ 9,961,298</u>	<u>\$ 9,961,289</u>	<u>\$ 9</u>

**CASS COUNTY
WALKER, MINNESOTA**

*EXHIBIT C-1
(Continued)*

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2012**

	Balance January 1	Additions	Deductions	Balance December 31
<u>TOWNS AND CITIES</u>				
<u>Assets</u>				
Cash and pooled investments	\$ <u>10,050</u>	\$ <u>12,075,895</u>	\$ <u>12,076,502</u>	\$ <u>9,443</u>
<u>Liabilities</u>				
Due to other governments	\$ <u>10,050</u>	\$ <u>12,075,895</u>	\$ <u>12,076,502</u>	\$ <u>9,443</u>
 <u>MINNESOTA COUNTIES INFORMATION SYSTEMS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 562,669	\$ 1,680,644	\$ 1,701,863	\$ 541,450
Petty cash and change funds	<u>400</u>	<u>-</u>	<u>-</u>	<u>400</u>
Total Assets	\$ <u>563,069</u>	\$ <u>1,680,644</u>	\$ <u>1,701,863</u>	\$ <u>541,850</u>
<u>Liabilities</u>				
Salaries payable	\$ 52,715	\$ 58,309	\$ 52,715	\$ 58,309
Due to other governments	<u>510,354</u>	<u>1,622,335</u>	<u>1,649,148</u>	<u>483,541</u>
Total Liabilities	\$ <u>563,069</u>	\$ <u>1,680,644</u>	\$ <u>1,701,863</u>	\$ <u>541,850</u>

**CASS COUNTY
WALKER, MINNESOTA**

*EXHIBIT C-1
(Continued)*

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2012**

	Balance January 1	Additions	Deductions	Balance December 31
<u>MISSISSIPPI HEADWATERS BOARD</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 125,713	\$ 33,271	\$ 158,984	\$ -
Petty cash and change funds	40	-	-	40
Total Assets	\$ 125,753	\$ 33,271	\$ 158,984	\$ 40
<u>Liabilities</u>				
Salaries payable	\$ 1,813	\$ -	\$ 1,813	\$ -
Due to other governments	123,940	33,271	157,171	40
Total Liabilities	\$ 125,753	\$ 33,271	\$ 158,984	\$ 40
 <u>TOTAL ALL AGENCY FUNDS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 1,409,761	\$ 85,922,661	\$ 86,137,923	\$ 1,194,499
Petty cash and change funds	440	-	-	440
Total Assets	\$ 1,410,201	\$ 85,922,661	\$ 86,137,923	\$ 1,194,939
<u>Liabilities</u>				
Salaries payable	\$ 54,528	\$ 58,309	\$ 54,528	\$ 58,309
Due to other governments	1,301,765	85,724,582	85,976,524	1,049,823
Prepaid taxes	53,908	139,770	106,871	86,807
Total Liabilities	\$ 1,410,201	\$ 85,922,661	\$ 86,137,923	\$ 1,194,939

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OTHER SCHEDULES

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**CASS COUNTY
WALKER, MINNESOTA**

EXHIBIT D-1

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
FOR THE YEAR ENDED DECEMBER 31, 2012**

Shared Revenue

State

Highway users tax	\$	5,070,623
County program aid		359,016
PERA rate reimbursement		52,234
Disparity reduction aid		7,405
Police aid		213,054
E-911		105,269
Market value credit		112,757
Casino aid/tribal tax agreement		59,861

Total shared revenue **\$ 5,980,219**

Reimbursement for Services

Minnesota Department of Human Services **\$ 979,136**

Payments

Local

Local contribution	\$	376,578
Payments in lieu of taxes		874,277

Total payments **\$ 1,250,855**

Grants

State

Minnesota Department of Corrections	\$	156,726
Crime Victim Services		48,277
Public Safety		67,167
Health		288,014
Natural Resources		1,542,251
Pollution Control		14,299
Human Services		1,724,092
Veterans Affairs		830
Office of Environmental Assistance		70,000

Total state **\$ 3,911,656**

Federal

Department of Agriculture	\$	623,631
Commerce		13,700
Interior		421,894
Justice		13,132
Transportation		1,146,953
Health and Human Services		2,580,804
Homeland Security		377,423
U.S. Election Assistance Commission		10,082

Total federal **\$ 5,187,619**

Total state and federal grants **\$ 9,099,275**

Total Intergovernmental Revenue **\$ 17,309,485**

**CASS COUNTY
WALKER, MINNESOTA**

EXHIBIT D-2

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2012**

Federal Grantor Pass-Through Agency Grant Program Title	Pass-Through Grant Numbers	Federal CFDA Number	Expenditures
U.S. Department of Agriculture			
Direct			
Cooperative Forestry Assistance		10.664	\$ 9,954
Passed Through Minnesota Department of Health			
Special Supplemental Nutrition Program for Women, Infants, and Children		10.557	160,139
Passed Through Minnesota Department of Human Services			
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program (SNAP)		10.561	209,662
Passed Through Minnesota Department of Management & Budget			
Schools and Roads - Grants to States		10.665	<u>243,876</u>
Total U.S. Department of Agriculture			<u>\$ 623,631</u>
U.S. Department of Commerce			
Passed Through Minnesota Department of Public Safety			
Public Safety Interoperable Communications Grant Program		11.555	<u>\$ 13,700</u>
U.S. Department of the Interior			
Direct			
Payments in Lieu of Taxes		15.226	\$ 411,194
Fish and Wildlife Management Assistance		15.608	<u>10,700</u>
Total U.S. Department of the Interior			<u>\$ 421,894</u>
U.S. Department of Justice			
Direct			
Bulletproof Vest Partnership Program		16.607	\$ 5,832
Passed Through Crow Wing County			
Juvenile Accountability Block Grants		16.523	<u>7,300</u>
Total U.S. Department of Justice			<u>\$ 13,132</u>

**CASS COUNTY
WALKER, MINNESOTA**

**EXHIBIT D-2
(Continued)**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2012**

Federal Grantor Pass-Through Agency Grant Program Title	Pass-Through Grant Numbers	Federal CFDA Number	Expenditures
U.S. Department of Transportation			
Passed Through Minnesota Department of Transportation Highway Planning and Construction		20.205	\$ 1,016,735
Passed Through Minnesota Department of Public Safety State and Community Highway Safety		20.600	9,382
Minimum Penalties for Repeat Offenders for Driving While Intoxicated (Total Minimum Penalties for Repeat Offenders for Driving While Intoxicated 20.608 \$128,292)	9200-2994	20.608	22,968
Passed Through Minnesota Trial Courts Minimum Penalties for Repeat Offenders for Driving While Intoxicated (Total Minimum Penalties for Repeat Offenders for Driving While Intoxicated 20.608 \$128,292)		20.608	<u>105,324</u>
Total U.S. Department of Transportation			\$ <u>1,154,409</u>
U.S. Election Assistance Commission			
Passed Through Minnesota Secretary of State Help America Vote Act Requirements Payments		90.401	\$ <u>10,082</u>
U.S. Department of Health and Human Services			
Passed Through Minnesota Department of Health Public Health Emergency Preparedness		93.069	\$ 16,521
Universal Newborn Hearing Screening		93.251	150
Immunization Cooperative Agreements		93.268	3,300
Centers for Disease Control and Prevention - Investigations and Technical Assistance		93.283	75
Temporary Assistance for Needy Families (TANF) Cluster Temporary Assistance for Needy Families (Total Temporary Assistance for Needy Families 93.558 \$523,128)		93.558	82,008
Emergency Contingency Fund for Temporary Assistance for Needy Families State Programs - ARRA		93.714	25,602
Maternal and Child Health Services Block Grant to the States		93.994	35,093

**CASS COUNTY
WALKER, MINNESOTA**

**EXHIBIT D-2
(Continued)**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2012**

Federal Grantor Pass-Through Agency Grant Program Title	Pass-Through Grant Numbers	Federal CFDA Number	Expenditures
U.S. Department of Health and Human Services (Continued)			
Passed Through Minnesota Department of Human Services			
Promoting Safe and Stable Families		93.556	15,059
Temporary Assistance for Needy Families (TANF) Cluster			
Temporary Assistance for Needy Families		93.558	441,120
(Total Temporary Assistance for Needy Families 93.558 \$523,128)			
Child Support Enforcement		93.563	613,649
Refugee and Entrant Assistance - State-Administered Programs		93.566	427
Child Care and Development Block Grant		93.575	22,467
Stephanie Tubbs Jones Child Welfare Services Program		93.645	3,765
Foster Care - Title IV-E		93.658	84,134
Social Services Block Grant		93.667	240,034
Chafee Foster Care Independence Program		93.674	1,420
Children's Health Insurance Program		93.767	70
Medical Assistance Program		93.778	976,476
 Passed Through Todd/Morrison/Wadena Community Health Board			
Community Transformation Grant		93.531	19,434
 Total U.S. Department of Health and Human Services			\$ 2,580,804
U.S. Department of Homeland Security			
Passed Through Minnesota Department of Natural Resources			
Boating Safety Financial Assistance		97.012	\$ 75,622
 Passed Through Minnesota Department of Public Safety			
Disaster Grants - Public Assistance (Presidentially Declared Disasters)		97.036	169,113
Emergency Management Performance Grants	2010-EMPG-00657	97.042	39,998
Homeland Security Grant Program	2009-SHSP-00558	97.067	92,690
 Total U.S. Department of Homeland Security			\$ 377,423
 Total Federal Awards			\$ 5,195,075

**CASS COUNTY
WALKER, MINNESOTA**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2012**

1. Reporting Entity

The Schedule of Expenditures of Federal Awards presents the activities of federal award programs expended by Cass County. The County's reporting entity is defined in Note 1 to the financial statements. The schedule does not include \$389,540 in federal awards expended by the Cass County Housing and Redevelopment Authority component unit, which has a separate audit performed by other auditors.

2. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Cass County under programs of the federal government for the year ended December 31, 2012. The information in this schedule is presented in accordance with the requirements of Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of Cass County, it is not intended to and does not present the financial position, changes in net position, or cash flows of Cass County.

3. Summary of Significant Accounting Policies

Expenditures reported on the schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.

4. Clusters

Clusters of programs are groupings of closely related programs that share common compliance requirements. Total expenditures by cluster are:

Temporary Assistance for Needy Families Cluster	\$	548,730
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**CASS COUNTY
WALKER, MINNESOTA**

5. Reconciliation to Schedule of Intergovernmental Revenue

Federal grant revenue per Schedule of Intergovernmental Revenue	\$ 5,187,619
Unavailable revenue in 2012	
Highway Planning and Construction	<u>7,456</u>
Expenditures Per Schedule of Expenditures of Federal Awards	<u>\$ 5,195,075</u>

6. Subrecipients

Of the expenditures presented in the schedule, Cass County did not provide any federal awards to subrecipients.

7. American Recovery and Reinvestment Act

The American Recovery and Reinvestment Act of 2009 (ARRA) requires recipients to clearly distinguish ARRA funds from non-ARRA funding. In the schedule, ARRA funds are denoted by the addition of ARRA to the program name.

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**CASS COUNTY
WALKER, MINNESOTA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2012**

I. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: **Unmodified**

Internal control over financial reporting:

- Material weaknesses identified? **No**
- Significant deficiencies identified? **Yes**

Noncompliance material to the financial statements noted? **No**

Federal Awards

Internal control over major programs:

- Material weaknesses identified? **No**
- Significant deficiencies identified? **No**

Type of auditor's report issued on compliance for major programs: **Unmodified**

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? **No**

The major programs are:

Payment in Lieu of Taxes	CFDA #15.226
Child Support Enforcement	CFDA #93.563
Medical Assistance Program	CFDA #93.778
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	CFDA #97.036

The threshold for distinguishing between Types A and B programs was \$300,000.

Cass County qualified as a low-risk auditee? **Yes**

II. FINDINGS RELATED TO FINANCIAL STATEMENTS AUDITED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

96-7 Departmental Internal Accounting Controls

Criteria: Management is responsible for establishing and maintaining internal control. This responsibility includes the internal control over the various accounting cycles, the fair presentation of the financial statements and related notes, and the accuracy and completeness of all financial records and related information. Adequate segregation of duties is a key internal control in an organization's accounting system.

Condition: Due to the limited number of office personnel within various County departments, proper segregation of the accounting functions necessary to ensure adequate internal accounting control is not always possible.

Context: Because of the small size of some departments of Cass County, the internal control that management can design and implement into these departments is limited.

Effect: Without proper segregation of duties, an opportunity is created for errors or fraudulent activities to occur and remain undetected.

Cause: This condition is not unusual in small departmental situations where staffing limitations can result in improper segregation of duties. Management has identified departments where inadequate segregation of duties issues exist. Management has determined that given limited resources, it is not feasible to achieve the desired level of segregation of duties in these departments.

Recommendation: Management is aware that segregation of duties is not adequate from an internal control point of view. We recommend the County Board of Commissioners be mindful that limited staffing causes inherent risks in safeguarding the County's assets and the proper reporting of its financial activity. We recommend the Board of Commissioners continue to implement oversight procedures and monitor those procedures to determine if they are still effective internal controls.

Client's Response:

The County will continue to emphasize the need for Department Heads to segregate accounting functions whenever possible and to closely supervise those areas where proper segregation of duties cannot be achieved.

11-1 Audit Adjustments

Criteria: A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements of the financial statements on a timely basis

Condition: During our audit, we identified a significant adjustment to the County's Road and Bridge Fund in the amount of \$718,236 that resulted in a reclassification of regular state aid construction receipts to federal highway construction funds. This adjustment was necessary to correctly present federal construction funding in Cass County's financial statements.

Context: Federal funds were advanced by the Minnesota Department of Transportation (MnDOT) along with state aid regular construction funds for highway project SP 011-608-014. Although federal funds were not separately identified in the State Aid Accounting Systems (SAAS) report, MnDOT identifies funding sources by project in its project status reports to the County. Federal funds are also identified by project in the State Vendor Payment Report, which is available to the County.

The inability to properly record revenue or to detect significant misstatements in the financial statements increases the likelihood that the financial statements would not be fairly presented.

Effect: An adjustment was made to properly present revenues in the County's Road and Bridge Fund.

Cause: Although Cass County management has reasonable financial statement closing procedures, this transaction was overlooked during the closing process. County staff did not review all the reports that were available to ensure that revenue from MnDOT was properly classified and reported.

Recommendation: We recommend County staff review their financial statement closing procedures to ensure that all significant adjustments have been made that are considered necessary to fairly state the County's financial statements in accordance with generally accepted accounting principles.

Client's Response:

The County will review all available reports to correctly identify and report federal funds in the financial statements. The Chief Financial Officer and the Chief Deputy Treasurer will assist the Road and Bridge Accountant to ensure that MnDOT revenue is properly classified and reported. By adding depth to the review process, it is the County's goal to avoid any future material adjustments by the Auditor.

PREVIOUSLY REPORTED ITEMS RESOLVED

Time Reporting Procedures (08-3)

The County did not have in place a procedure for contract deputies from other jurisdictions providing security services at an outdoor festival to report hours worked in conformance with the County's time reporting policies.

Resolution

A procedure has been implemented to ensure that the deputies' time is properly reported and approved.

Preparation of the Schedule of Expenditures of Federal Awards (11-2)

The County's procedures and internal controls for identifying federal financial assistance for preparation of its Schedule of Expenditures of Federal Awards (SEFA) was inadequate. As a result, the SEFA prepared by Cass County did not correctly identify federal programs and amounts expended for several federal programs in accordance with OMB Circular A-133.

Resolution

The County implemented procedures to ensure that the information reported in the SEFA was correct.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

PREVIOUSLY REPORTED ITEMS RESOLVED

Davis-Bacon Act (11-3)

Cass County did not have internal controls in place to determine if the contractors hired under the Energy Efficiency and Conservation Block Grant (EECBG) - ARRA (CFDA No. 81.128) were complying with the Davis-Bacon Act in accordance with OMB Circular A-133 regarding the payment of prevailing wage rates.

Resolution

The County implemented a procedure to identify contracts covered by the Davis-Bacon Act and to ensure that compliance requirements have been met before approval of any contract payments.

Activities Allowed and Unallowed, Allowable Costs/Cost Principles (11-4)

For grant programs funded using the reimbursement method, federal compliance requires that claims for reimbursement be based upon paid invoices having proper approval by supervisors who have program oversight responsibility. Not all invoices paid under the Energy Efficiency and Conservation Block Grant (EECBG) - ARRA (CFDA No. 81.128) contained proper approvals for payment.

Resolution

Pay requests or invoices for materials or services under contract will be signed by the Department Head of the originating department prior to approval by the Board of Commissioners.

Cash Management (11-5)

OMB Circular A-133 requires that when entities are funded on a reimbursement basis, program costs must be paid for by the entity before federal reimbursement is requested. Because of a contractor billing error, Cass County was over-reimbursed for the federal share due under the Energy Efficiency and Conservation Block Grant (EECBG) - ARRA (CFDA No. 81.128). Subsequent reimbursement requests were not revised to reflect the difference. The County had incurred other eligible expenditures in an amount sufficient to earn the additional reimbursement; however, no documentation was provided to support whether any of the other eligible expenditures were ever submitted to the grantor agency for approval.

Resolution

In the future, grant reimbursements will only be filed after actual expenditures can be verified. Amended reimbursement requests will be filed with the grantor agency when it is determined an error has occurred.

Incomplete Grant File/Reporting (11-6)

Each recipient of a federal grant award is required to maintain a complete grant file documenting expenditures of grant funds and allowable activities undertaken during the grant period. The file documentation for the County's Homeland Security Grant Program (CFDA No. 97.067) did not contain evidence of activities supporting compliance with the filing of timely and accurate performance reports.

Resolution

The County implemented procedures to ensure that County departments assemble and maintain complete grant files.

IV. OTHER FINDINGS AND RECOMMENDATIONS

A. MINNESOTA LEGAL COMPLIANCE

PREVIOUSLY REPORTED ITEM RESOLVED

Ratings on Collateral (11-7)

The pledging bank was unaware of the Minnesota statutory requirement that the pledged collateral was required to be rated. The bank's collateral reports do not include rating information, and the client did not follow up with the bank to see if the collateral was properly rated.

Resolution

Collateral pledged at December 31, 2012, was properly rated.

B. MANAGEMENT PRACTICES

PREVIOUSLY REPORTED ITEM RESOLVED

Computer Risk Management/Business Continuity Plan (08-2)

Cass County should develop a formal risk assessment process to analyze potential risks to County operations and develop internal controls and procedures to reduce identified risks. The County was in the preliminary stages of creating and implementing a Business Continuity Plan.

Resolution

The County has implemented a Business Continuity Plan.



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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Independent Auditor's Report

Board of County Commissioners
Cass County

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Cass County as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated September 26, 2013.

Our report includes reference to other auditors. Other auditors audited the financial statements of the Cass County Housing and Redevelopment Authority (HRA) and the Pine River Area Sanitary District (District), the discretely presented component units, as described in our report on Cass County's financial statements. This report does not include the results of the other auditor's testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Cass County's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over financial reporting.

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the County's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit the attention of those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit, we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control over financial reporting, described in the accompanying Schedule of Findings and Questioned Costs as items 96-7 and 11-1, that we consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Cass County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Minnesota Legal Compliance

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, contains seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing. Our audit considered all of the listed categories, except that we did not test for compliance with the provisions for tax increment financing because that provision was not applicable.

In connection with our audit, nothing came to our attention that caused us to believe that Cass County failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the County's noncompliance with the above referenced provisions.

Other Matters

Cass County's responses to the internal control findings identified in our audit have been included in the Schedule of Findings and Questioned Costs. The County's responses were not subject to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control over financial reporting, compliance and the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions* and the results of that testing, and not to provide an opinion on the effectiveness of the County's internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the County's internal control over financial reporting and compliance. Accordingly, this communication is not suitable for any other purpose.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

September 26, 2013

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REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Independent Auditor's Report

Board of County Commissioners
Cass County

Report on Compliance for Each Major Federal Program

We have audited Cass County's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the County's major federal programs for the year ended December 31, 2012. Cass County's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs.

Cass County's basic financial statements include the operations of the Cass County Housing and Redevelopment Authority component unit, which expended \$389,540 in federal awards during the year ended December 31, 2012, which are not included in the Schedule of Expenditures of Federal Awards. Our audit, described below, did not include the operations of the Cass County Housing and Redevelopment Authority because it was audited by another auditor.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Cass County's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Cass County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the County's compliance with those requirements.

Opinion on Each Major Federal Program

In our opinion, Cass County complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2012.

Report on Internal Control Over Compliance

Management of Cass County is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the County's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit the attention of those charged with governance.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Purpose of This Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

September 26, 2013

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR